

(W-1.2)

$$\begin{aligned} \text{Accumulative depreciation} &= \text{Cost} - \text{WDV} \\ &= 52,000 - 30,338 = 21,662 \end{aligned}$$

(W-2)

$$\begin{aligned} \text{Cost of New Asset} &= \text{Cash paid} + \text{Trade In Allowance (TIA)} \\ &= 80,000 + 40,000 = 120,000 \end{aligned}$$

(W-3)

	Cost	65,000
1-10-15		(2,438)
31-12-15	Depreciation $65,000 \times 15\% \times 3/12$	62,562
31-12-15	WDV	(9,384)
31-12-16	Depreciation $62,562 \times 15\%$	53,178
31-12-16	WDV	(3,988)
31-12-17	Depreciation $53,178 \times 15\% \times 6/12$	49,190
31-6-17	WDV	

(W-3.1)

$$\begin{aligned} \text{Accumulative depreciation} &= \text{Cost} - \text{WDV} \\ &= 65,000 - 49,190 = 15,810 \end{aligned}$$

(W-4)

Depreciation Expenses

Depreciation on opening asset excluding disposal		57,283
$= (800,00 - 333,000) - 53,178 - 31,935 = 381,887 \times 15\%$		
Depreciation on addition		9,000
$= 120,000 \times 15\% \times 6/12$		1,597
Depreciation on disposal	W-1	3,988
	W-3	<u>71,868</u>

Answer-11

(a) Depreciation of plant

Date	Description
1-1-15	Cost
31-12-15	Dep $\left(\frac{500-60}{10}\right)$
31-12-15	WDV
31-12-16	Dep $\left(\frac{456-78}{9}\right)$
31-12-16	WDV
31-12-16	Rev surplus
31-12-16	Rev amount
31-12-17	Dep $\left(\frac{526-780}{8}\right) \left(\frac{112}{8}\right)$
31-12-17	WDV

Plant	Rev. surplus	P/L
Rs. in million		
500		
(44)		
456		
(42)		
414		
112	112	
526	112	
(56)	(14)	
470	98	

31-12-18	Dep $\left(\frac{470-64}{7}\right)$	(58)	(14)	
31-12-18	WDV	412	84	
31-12-18	Rev surplus	(102)	(84)	(18)
31-12-18	Rev amount	310	0	(18)

Depreciation of equipment

Date	Description	Equipment	Rev. surplus Rs. in million	P/L
1-7-15	Cost	360		
31-12-15	Dep $\left(\frac{360-0}{12} \times \frac{6}{12}\right)$	(15)		
31-12-15	WDV	345		
31-12-16	Dep $\left(\frac{345-0}{15}\right)$	(23)		
31-12-16	WDV	322		
31-12-16	Rev surplus	(42)		(42)
31-12-16	Rev amount	280		(42)
31-12-17	Dep $\left(\frac{280-0}{14}\right) \left(\frac{42}{14}\right)$	(20)		3
31-12-17	WDV	260		(39)
31-12-18	Dep $\left(\frac{260-0}{10}\right)$	(26)		3.9
31-12-18	WDV	234		(35.1)
31-12-18	Rev surplus	41	5.9	35.1
31-12-18	Rev amount	275	5.9	-

(b) Journal Entry

Date	Description	Dr. Rs. million	Cr. Rs. million
31-12-18	Revaluation loss (P & L account)	18.00	
	Revaluation surplus	84.00	
	Plant		102.00
31-12-18	Equipment	41.00	
	Revaluation gain (P & L account)		35.10
	Revaluation surplus		5.90

Answer-12**Monday Limited****Notes to the financial statement****For the year ended 31 December 2018****N-1: Property, plant and equipment:**

	Office building	Equipment	Plant
	Rs. in million		
Gross carrying amount			
Opening	240.00	190.00	-
Addition	-	96.00	699.25
Transfer	(48)	-	-
Revaluation	(14)	-	-
- Disposal	-	(40.00)	-
Closing	178.00	246.00	699.25

Accumulated Depreciation

Opening
Depreciation for the year
Transfer
Disposal
Closing
Net carrying amount – closing
Net carrying amount – opening

36.00	60.00	-
12	30.48	7.77
(48)	-	-
-	(15.04)	-
-	75.44	7.77
178.00	170.56	691.48
204.00	130.00	-

	Office building	Equipment	Plant
Measurement base	Revaluation model	Cost model	Cost model
Useful life (years)/depreciation rate %	20 years	20%	15 years
Depreciation method	Straight line	Reducing balance	Straight line

N-1.1: The last revaluation was performed on 31 December 2018 by Precise Valuers, an independent firm of valuers.

Carrying value of building, had the cost model been used instead	Xxx
--	-----

WORKINGS

W-1

	Asset Building	R/S	P/L
1-1-18 Cost/Revalued Amount	240	-	-
1-1-18 Acc Dep	(36)	-	-
1-1-18 WDV	204	8.5	-
31-12-18 Dep 204/17*; 8.5/17*	(12)	(0.5)	-
31-12-18 WDV	192	8.0	-
31-12-18 Revaluation Loss (P/L)	(14)	(8.0)	(6.0)
31-12-18 Revalued Amount	178	-	(6.0)

* Remaining life = Original life – Life passed till 31.12.17

Remaining life = 20 – 3** = 17

** Accumulated depreciation = Depreciation of one year x Life passed till 31.12.17

36 = (240 / 20) x Life passed till 31.12.17

Life passed till 31.12.17 = 3 years

W-2 Depreciation on equipment

Depreciation on Opening excluding disposal	20.24
{WDV all – WDV Disposal} × Rate {130 - 28.8} × 20%	
Depreciation on addition {96 × 0.2 × 4/12}	6.4
Depreciation on disposal {W-3.2}	
WDV opening × rate	3.84
Total	30.48

W-3 Exchange of Assets – Journal Entry

	Dr.	Cr.
Asset-New (W.3.1)	96	
Acc Dep-Old (40-24.96) (W-3.2)	15.04	
Loss on Disposal	3.96	
Asset-Old		40

Cash (70 + 5 installation)

75

W.3.1 Asset-New Cost

FV Old + Cash Paid 21 + 70

Installation cost

Total

91

5

96

W-3.2 Accumulated depreciation

Cost

Rs. in million

Depreciation $40 \times 0.2 \times \frac{6}{12}$

40.00

WDV

(4.00)

Depreciation

36.00

WDV

(7.20)

Depreciation $28.8 \times 0.2 \times \frac{8}{12}$

28.80

(3.84)

24.96

Accumulated depreciation (40 - 24.96)

15.04

W-4 Cost of plant

	Rs. in million
Payments	660.00
Borrowing cost:	
Interest cost	$500 \times 18\% \times 7.5 \div 12$
Investment income	
	56.25
	(17.00)
	699.25

W-4.1 Depreciation or plant

$$\frac{699.25}{15} \times \frac{2}{12} = 7.77$$

Answer-13**Distaghil Limited****Statement of comprehensive income (extracts)**

For the year ended 31 December 2019

		2019	2018
		--- Rs. in million ---	
Expenses			
Depreciation expense – Vehicle	(W-1)	(32.00)	(34.00)
Depreciation expense – Plant	(W-2)	(35.00)	(26.25)
Revaluation loss / (Revaluation loss reversal)	(W-1)	15.00	(17.00)
Fair value loss – Warehouse	(W-4)	-	(8.00)
Incomes			
Government grant income	(W-2)	15.00	11.25
Fair value gain – Warehouse	(W-4)	19.00	-
Other comprehensive income			
Revaluation surplus - Specialized vehicle (W-1)		5.00	-
Revaluation surplus – Warehouse (W-3)		-	24.00

Distaghil Limited

CHAPTER-1

Statement of financial position (extracts)
As on 31 December 2019

		2019 --- Rs. in million ---	2018
Equity and liabilities			
Equity			
		5.00	-
Revaluation surplus - Specialized vehicle	(W-3)	21.00	22.50
Revaluation surplus - Warehouse			
		93.75	108.75
Liabilities			
Deferred income - Government grant			
[120 - 11.25(W-2) - 15(W-2)] : [120 - 11.25(W-2)]			
Assets			
Non current assets			
PPE: Specialized vehicle	(W-1)	290.00	302.00
PPE: Plant [280 - 26.25(W-2) - 35(W-2)] : [280 - 26.25(W-2)]		218.75	253.75
Investment property: Warehouse	(W-4)	115.00	96.00

WORKINGS

(W-1) Specialized Vehicle

Date	Description	<u>Vehicle</u>	<u>R/S</u>	<u>P/L</u>
01.07.17	Cost	370.00		
31.12.17	Depreciation [(370 - 30) / 10] x 6/12	(17.00)		
31.12.17	WDV	353.00		
31.12.18	Depreciation [(370 - 30) / 10]	(34.00)		
31.12.18	WDV	319.00		
31.12.18	Revaluation loss (Bal.)	(17.00)		(17.00)
31.12.18	Revalued amount	302.00		(17.00)
31.12.19	Depreciation [(302 - 30) / 8.5]: [17 / 8.5]	(32.00)		2.00
31.12.19	WDV	270.00		(15.00)
31.12.19	Revaluation surplus (Bal.)	20.00	5.00	15.00
31.12.19	Revalued amount	290.00	5.00	-

(W-2)	Manufacturing plant		280.00	
	Plant			280.00
	Cash		120.00	
	Cash			120.00
	Deferred income - Government grant		26.25	
	Depreciation (280 / 8) x 9/12			26.25
	Plant		11.25	
	Deferred income - Government grant			11.25
	Government grant income (120 / 8) x 9/12		35.00	
	Depreciation (280 / 8)			35.00
	Plant		15.00	
	Deferred income - Government grant			15.00
	Government grant income (120 / 8)			

(W-3)	Warehouse - PPE			
Date	Description	<u>Warehouse</u>	<u>R/S</u>	<u>P/L</u>

1.1.18	WDV	80.00	
1.1.18	Revaluation surplus (Bal.)	24.00	24.00
1.1.18	Revalued amount	104.00	24.00
1.1.18	Transferred to investment property	(104.00)	-
1.1.18	WDV	-	24.00
31.12.18	Depreciation [24 / 16]		(1.50)
31.12.18	WDV		22.50
31.12.19	Depreciation [24 / 16]		(1.50)
31.12.19	WDV		21.00

(W-4)		Warehouse - Investment property	
1.1.18	PPE	104.00	31.12.18 P&L account (Bal.) 8.00
			31.12.18 c/d - fair value 96.00
1.1.19	b/d	96.00	
31.12.19	P&L account (Bal.)	19.00	31.12.19 c/d - fair value 115.00

Answer-14**Harappa Industries Limited (HIL)****Notes to the Financial statements****For the year ended June 30, 2020**

1. Property, plant and equipment:	Land	Buildings	Plant	Vehicles
	----- Rs. in '000' -----			
Gross carrying amount				
Opening balance	100,000	70,000	180,000	8,800
Transfer	-	(17,500)	-	-
Revaluation (W-1) : (W-2)	20,000	(17,500)	-	-
Addition (W-3)	-	-	102,840	1,800
Disposal	-	-	-	(1,000)
Closing balance	120,000	35,000	282,840	9,600
Accumulated depreciation				
Opening balance	-	14,000	60,000	4,000
Depreciation (W-2) : (W-4)	-	3,500	14,571	1,068
Transfer	-	(17,500)	-	-
Disposal (W-4.1)	-	-	-	(352)
Closing balance	-	-	(74,571)	(4,716)
Written down value	120,000	35,000	208,269	4,884

CHAPTER-1

1.1	Measurement basis	Revaluation	Revaluation	Cost model	Cost model
	Useful life / depreciation rate	Infinte	15 years	10-15 years	20%
	Depreciation method	-	Straight line	Straight line	Reducing balance

1.2 The last revaluation was performed on 30 June 2020 by Smart Consultants, an independent firm of valuers.

1.3 Had there been no revaluation, the carrying value of land and buildings as on 30 June 2020 would have been:

	Land	Buildings
	----- Rs. in '000' -----	
Cost (100,000 + 12,000) : (70,000 - 20,000)	112,000	50,000
Less: Accumulated depreciation	-	(12,500)
Written down value	112,000	37,500

1.4 Movement in revaluation surplus

	Land	Buildings
	----- Rs. in '000' -----	
Opening (1.7.2019)	(12,000)	16,000
Arose during the year	20,000	-
Transferred to retained earnings / adjusted	-	(16,000)
Closing (30.6.2020)	8,000	-

WORKINGS

W-1 Revaluation of land

Date	Description	Land	R / S	P / L
30.6.2019	WDV	100,000	-	(12,000)
30.6.2020	Revaluation surplus (bal.)	20,000	8,000	12,000
30.6.2020	Revalued amount	120,000	8,000	-

W-2 Revaluation of buildings

Date	Description	Buildings	R / S	P / L
30.6.2019	WDV (70,000 - 14,000)	56,000	16,000	-
30.6.2020	Dep. (56,000 / 16) : (16,000 / 16)	(3,500)	(1,000)	-
30.6.2020	WDV	52,500	15,000	-
30.6.2020	Revaluation surplus (bal.)	(17,500)	(15,000)	(2,500)
30.6.2020	Revalued amount	35,000	-	(2,500)

W-3 Cost of plant

Construction payments	120,000
Borrowing cost capitalised (W-3.1)	2,840
Government grant	(20,000)
	<u>102,840</u>

W-3.1 Borrowing cost to be capitalised

Interest expense on general loan:

(12,000 x 12% x 7 / 12)

840

(48,000 x 12 % x 5 / 12)

2,400

Interest saving due to grant (20,000 x 12% x 2 / 12)

3,2

(40

2,8**W-4 Depreciation expense for the year ended 30.06.2020****Plant**

On opening (180,000 / 15)

12,0

On addition (102,840 / 10) x 3 / 12

2,514,5**Vehicle**

On opening [(8,800 - 4,000) - 720 (W-4.1)] x 20%

8

On addition (1,800 x 20%) x 6 / 12

1

On disposal (W-4.1)

1,0**W-4.1 Acc. Dep. and WDV of disposal**

1.1.18 Cost

1,0

30.6.18 Depreciation (1,000 x 20%) x 6 / 12

(10

30.6.18 WDV

9

30.6.19 Depreciation (900 x 20%)

(18

30.6.19 WDV

71

1.1.20 Depreciation (720 x 20%) x 6 / 12

(86

1.1.20 WDV

62

Accumulated depreciation (1,000 - 648)

Answer-15

- (i) The accounting treatment adopted by accountant for not recording land is incorrect. Allotment of land by Government is a transfer of a non-monetary asset and should be considered as government grant. Such non-monetary grant may be recorded at fair value or at a nominal value. As per CL's policy, fair value of the land should be assessed and reported in the financial statements under the head property, plant and equipment (PPE). The grant was made subject to construction of factory so the resulting deferred income should be recognized in income statement on a systematic basis over the useful life of the factory building.

The factory building should also be transferred from capital work in progress to PPE account when the building is available for use on 1 October 2020. Further depreciation should also be charged from same date i.e. 1 October 2020.

- (ii) The accounting treatment adopted by accountant to record complete building under PPE head is incorrect. Two floors which have been leased/rented separately so should be accounted for as investment property. While ground floor used by marketing department should be recorded as property, plant and equipment under IAS 16 and depreciated over its useful life.

As per CL policy, investment property should be recorded at fair value and changes in fair value should be taken to statement of profit or loss. Any depreciation already charged on these floors should be reversed.

- (iii) The accounting treatment adopted by accountant to expense out borrowing cost is incorrect. Some borrowing cost is eligible for capitalization. Power generation plant falls under definition of qualifying asset as its construction involves substantial period.

Construction of the power plant is financed through specific borrowing so actual borrowing cost incurred less temporary investment income on the borrowings would be capitalized. However, the borrowing cost will be capitalized from the date when construction actually started i.e. 1 February 2020 rather than 1 January 2020. Further, the capitalization of borrowing costs should be suspended and charged to the statement of profit or loss during the three months when work was suspended.

In the statement of profit or loss, borrowing cost on loan and interest income earned from saving account should be presently separately.

Answer-16**Sputnik Sea Limited
General Journal***Rs. in million*

Date	Description	Debit	Credit
01-03-2018	Cruise ship	1,435.00	
	Bank		1,435.00
31-12-2018	Depreciation expense (W-1)	75.84	
	Accumulated depreciation - Cruise ship		75.84
01-05-2019	Repair cost	26.00	
	Bank		26.00
31-12-2019	Depreciation expense (W-1)	108.80	
	Accumulated depreciation - Cruise ship		108.80
31-12-2019	Accumulated depreciation - Cruise ship	184.64	
	Cruise ship $75.84 + 108.80$		184.64
31-12-2019	Cruise ship	149.64	
	Revaluation surplus (in OCI)		149.64
31-12-2020	Depreciation expense (W-1)	165.82	
	Accumulated depreciation - Cruise ship		165.82
31-12-2020	Revaluation surplus (W-2)	18.62	
	Retained earnings		18.62
31-12-2020	Accumulated depreciation - Cruise ship	165.82	
	Cruise ship		165.82
31-12-2020	Revaluation surplus (in OCI) (W-1)	131.02	
	Revaluation loss (P/L) (Bal. fig)	103.16	
	Cruise ship (W-1)		234.18

W-1: Rs. in million

Date	Description	Engine	Ship's Body	Dry Docking	Total	R/S	P/
1/3/2018	Acquisition cost	840.0	535.0	60.0	1,435		
31/12/18	Depreciation expense	(51.84) (840-40)÷50,000×(360×9)	(15.0) (535-35)÷25×9+12	(9.0) 60÷5×9/12	(75.84)		
31/12/19	Depreciation expense	(76.80) (840-40)÷50,000×(480×10)	(20.0) (535-35)÷25	(12.0) 60÷5	(108.80)		
31/12/19	Carrying value	711.36	500.0	39.0	1,250.36		
	Revaluation surplus (Bal.)				149.64	149.64	
31/12/19	Revalued amount	796.49	559.84	43.67	1,400.00	149.64	
31/12/20	Depreciation expense	(129.81) (796.38-40) ÷ (50,000-3240-4,800)×(600×12)	(22.57) (559.84-35)÷(25-1.75)	(13.44) 43.67÷(5-1.75)	(165.82)	(18.62)	
31/12/20	Carrying value	666.68	537.27	30.23	1,234.18	131.02	
31/12/20	Revaluation loss (Bal.)				(234.18)	(131.02)	(103.16)
31/12/20	Revalued amount				1,000	0	(103.16)

W-2: Depreciation on cost for 2020

Engine	$[(840-40)÷50,000]×7,200$	115.20
Body	$(535-35)÷25$	20.00
Dry docking	$60÷5$	12.00
Depreciation – cost model		147.20
Depreciation – revaluation model (W-1)		165.82
Incremental depreciation		18.62

Answer-17

Tsuki Limited
Notes to the financial statements
For the year ended 31.Dec.21

12. Property, Plant and Equipment**Gross Carrying Amount**

	31-Dec-21		31-Dec-20	
	Office building	Warehouse	Office building	Warehouse
Opening balance	116.0	138.0	116.0	138.0
Transfer	(20.0)	(21.0)	-	-
Revaluation	(16.0)	26.0	-	-
Closing balance	80.0	143.0	116.0	138.0

Accumulated Depreciation

	31-Dec-21		31-Dec-20	
	Office building	Warehouse	Office building	Warehouse
Opening balance	20.0	21.0	8.0	12.0
Transfer	(20.0)	(21.0)	-	-
Depreciation	10.0	11.0	12.0	9.0
Closing balance	(10.0)	(11.0)	(20.0)	(21.0)
Book value	70.0	132.0	96.0	117.0

12.1

Measurement Basic

Depreciation method

Life / rate

12.2

Last revaluation was performed on 1 January 2021 by sagheer valuation services, an independent firm of valuers.

12.3

Had revaluation not been made, the carrying value of the buildings and warehouse as on 31 December 2021 would have been Rs 63 million and 117 million respectively.

W-1: Carrying value on cost basis

Book value on 1 January 2020

Building	Warehouse
81	136.5

(96*13.5/16)	(156*10.5/12)
--------------	---------------

Book value on 31 December 2021

63 117

(81*7/9) (136.5*12/14)

(W-1)

Date	Description	Office building	R/S	P/L
01.07.17	Cost	96.0		
31.12.17	Depreciation (96/16) x 6/12	(3.0)		
31.12.17	BV	93.0		
31.12.18	Depreciation (96/16)	(6.0)		
31.12.18	BV	87.0		
01.01.19	Revaluation surplus (Bal.)	29.0	29.0	
01.01.19	Revalued amount	116.0	29.0	
31.12.19	Depreciation (116/14.5) : (29/14.5)	(8.0)	(2.0)	
31.12.19	BV	108.0	27.0	
31.12.20	Depreciation (108/9) : (27/9)	(12.0)	(3.0)	
31.12.20	BV	96.0	24.0	
01.01.21	Revaluation loss (Bal.)	(16.0)	(16.0)	
01.01.21	Revalued amount	80.0	8.0	
31.12.21	Depreciation (80/8) : (8/8)	(10.0)	(1.0)	
31.12.21	BV	70.0	7.0	

(W-1)

Date	Description	Warehouse	R/S	P/L
01.07.18	Cost	156.0		
31.12.18	Depreciation (156/12) x 6/12	(6.5)		
31.12.18	BV	149.5		
01.01.19	Revaluation surplus (Bal.)	(11.5)		(11.5)
01.01.19	Revalued amount	138.0		(11.5)
31.12.19	Depreciation (138/11.5) : (11.5/11.5)	(12.0)		1.0
31.12.19	BV	126.0		(10.5)
31.12.20	Depreciation (126/14) : (10.5/14)	(9.0)		0.8
31.12.20	BV	117.0		(9.8)
01.01.21	Revaluation surplus (Bal.)	26.0	16.3	9.8
01.01.21	Revalued amount	143.0	16.3	-
31.12.21	Depreciation (143/13) : (16.3/13)	(11.0)	(1.3)	
31.12.21	BV	132.0	15.0	

ICAP QUESTION BANK QUESTION**Question-1**

- 1 A business purchased some land and buildings on 1 January 2011 for Rs.800million (land Rs.250 million and buildings Rs.550 million). The buildings are to be depreciated over a period of 50 years.
On 1 January 2015 the land and buildings were revalued to Rs.1,500 million (land Rs.400 million and buildings Rs.1,100 million). At this date the buildings were believed to have a remaining useful life of 40 years.
What is the original depreciation charge for the buildings and the revised charge from 1 January 2015?
- 2 A business purchased land for Rs.250 million and buildings for Rs.400 million on 1 January 2011. The buildings were to be depreciated over a period of 50 years. On 1 January 2015 the land was revalued to Rs.520 million and the buildings were revalued at Rs.750 million. What amount is to be taken to the revaluation reserve on 1 January 2015?

*(ICAP Example 6)***Question-2**

Rooney has recently finished building a new item of plant for its own use. The item is a press for use in the manufacture of industrial diamonds. Rooney commenced construction of the asset on 1st April 2013 and completed it on 1st April 2015. At a total cost of Rs.30.8 million.

The press comprises two significant parts, the hydraulic system and the 'frame'. The hydraulic system has a three-year life and the 'frame' has an eight-year life. Rooney depreciates plant on a straight line basis. The cost of the hydraulic system is 30% of the total cost of manufacture.

Rooney uses the IAS 16 revaluation model in accounting for diamond presses and revalues these assets on an annual basis.

Revaluation surpluses or deficits are apportioned between the hydraulic system and the 'frame' on the basis of their year-end book values before the revaluation.

Required

- (a) Explain the IAS 16 rules on accounting for significant parts of property, plant and equipment and
- (b) Show the accounting treatment of the diamond press in the financial statements for the financial years ending:
 - (i) 31st March 2016 (assume that the press has a fair value of Rs.21 million)
 - (ii) 31st March 2017 (assume that the press has a fair value of Rs.19.6 million).

*(ICAP Example 7)***Question-3**

The following information relates to the financial statements of Ehtisham for the year to 31 March 2015. The head office of Ehtisham was acquired on 1 April 2012 for Rs.1 million. Ehtisham intend to occupy the building for 25 years. On 31 March 2014 it was revalued to Rs.1.15 million. On 31 March 2015, a surplus of vacant commercial property in the area had led to a fall in property prices and the fair value was now only Rs.0.8 million.

Required

Explain the correct accounting treatment for the above (with calculations).

(ICAP Example 8)

Question-4

The following is an extract from the financial statements of Carly on 31 December 2014.

Property, plant and equipment

	Land and buildings Rs.	Plant and equipment Rs.	Computers Rs.	Total Rs.
Cost On 31 December 2014	1,500,000	340,500	617,800	2,458,300
Accumulated depreciation On 31 December 2014	600,000	125,900	505,800	1,231,700
Carrying amount On 31 December 2014	900,000	214,600	112,000	1,226,600

Accounting policies

Depreciation

Depreciation is provided at the following rates.

On land and buildings	Over 50 years on straight line basis on buildings only
On plant and equipment	25% reducing balance
On computers	33.33% per annum straight line

During 2015 the following transactions took place.

- (1) On 31 December the land and buildings were revalued to Rs. 1,750,000. Of this amount, Rs.650,000 related to the land (which had originally cost Rs. 500,000). The remaining useful life of the buildings was assessed as 40 years.
- (2) A machine which had cost Rs. 80,000 and had accumulated depreciation of Rs. 57,000 at the start of the year was sold for Rs. 25,000 in the first week of the year.
- (3) A new machine was purchased on 30 April 2015. The following costs were incurred:

	Rs.
Purchase price, before discount, inclusive of reclaimable sales tax of Rs.3,000	20,000
Trade Discount	1,000
Delivery costs	500
Installation costs	750
Interest on loan taken out to finance the purchase	300

- (4) On 1 January it was decided to change the method of providing depreciation on computer equipment from the existing method to 40% reducing balance.

Required:

Produce the analysis of property, plant and equipment as it would appear in the financial statements of Carly for the year ended 31 December 2015. (ICAP Example 9)

Question-5

Adjustments Limited has carried out a review of its non-current assets.

- (a) A grinder was purchased on 1 January 2012 for Rs.100,000. The plant had an estimated useful life of ten years and a residual value of nil. Depreciation is charged on the straight line basis. On 1 January 2015, when the asset's net book value is Rs.70,000, the directors decide that it would be more appropriate to depreciate this asset using the sum of digits approach. The remaining useful life is unchanged.

- (b) The company purchased a fifty year lease some years ago for Rs.1,000,000. This was being depreciated over its life on a straight line basis. On 1 January 2015, when the net book value is Rs.480,000 and twenty-four years of the lease are remaining, the asset is revalued to Rs.1,500,000. This revised value is being incorporated into the accounts.

Required:

Explain the effects of these changes on the depreciation for the year to 31 December 2015.

(ICAP Example 10)

Question-6

FAM had the following tangible fixed assets at 31 December 2014.

	Cost Rs. 000	Depreciation Rs. 000	NBV Rs. 000
Land	500	-	500
Buildings	400	80	320
Plant and machinery	1,613	458	1,155
Fixtures and fittings	390	140	250
Assets under construction	91	-	91
	<u>2,994</u>	<u>678</u>	<u>2,316</u>

In the year ended 31 December 2015 the following transactions occur.

- (1) Further costs of Rs.53,000 are incurred on buildings being constructed by the company. A building costing Rs.100,000 is completed during the year.
- (2) A deposit of Rs.20,000 is paid for a new computer system which is undelivered at the year end.
- (3) Additions to plant are Rs.154,000.
- (4) Additions to fixtures, excluding the deposit on the new computer system, are Rs.40,000.
- (5) The following assets are sold.

	Cost Rs. 000	Depreciation brought forward Rs. 000	Proceeds Rs. 000
Plant	277	195	86
Fixtures	41	31	2

- (6) Land and buildings were revalued at 1 January 2015 to Rs. 1,500,000, of which land is worth Rs. 900,000. The revaluation was performed by Messrs Jackson & Co, Chartered Surveyors, on the basis of existing use value on the open market.
- (7) The useful economic life of the buildings is unchanged. The buildings were purchased ten years before the revaluation.
- (8) Depreciation is provided on all assets in use at the year end at the following rates.

Buildings	2% per annum straight line
Plant	20% per annum straight line
Fixtures	25% per annum reducing balance

Required:

Show the disclosure under IAS 16 in relation to fixed assets in the notes to the published accounts for the year ended 31 December 2015.

(ICAP Example 11)

Question-7

The following information pertains to property, plant and equipment of Orchid Limited (OL), a listed company:

Description	Date of purchase	Cost Rs. in million	Original useful life	Depreciation method	Subsequent measurement model
Buildings	1-Jan-15	600	30 years	Straight line	Revaluation
Plant	1-Jan-15	475	25 years	Straight line	Cost

Buildings

The revalued amount of buildings as determined by Shabbir Associates, an independent valuer, on 31 December 2015 and 2017 was Rs.700 million and Rs.463 million respectively.

On 30 June 2017 a building having original cost of Rs.66 million was sold to Baqir Limited for Rs.85 million. It was last revalued at Rs.87 million. OL incurred a cost of Rs.2 million on disposal.

OL transfers the maximum possible amount from revaluation surplus to retained earnings on an annual basis.

Plant

On 31 December 2016 the recoverable amount of the plant was assessed at Rs.360 million with no change in useful life.

During 2017, OL has decided to change the depreciation method for plant from straight line to reducing balance. The new depreciation rate would be 10%.

Required:

Prepare following notes (along with comparative figures) to be presented in the financial statements of OL for the year ended 31 December 2017 in accordance with the requirements of relevant IFRSs and Companies Act, 2017:

- Property, plant and equipment
- Change in depreciation method

(ICAP Example 12)

Question-8

Abid Limited (AL) uses the revaluation model for subsequent measurement of its property, plant and equipment and has a policy of revaluing its assets on an annual basis using the net replacement value method.

The following information pertains to AL's buildings:

- Four buildings were acquired in same vicinity on 1 January 2012 at a cost of Rs.300 million. The useful life of the buildings on the date of acquisition was 20 years.
- AL depreciates buildings on the straight line basis over their useful life.
- The results of revaluations carried out during the last three years by Premier Valuation Service, an independent firm of valuers, are as follows:

Revaluation date	Fair value Rs. in million
1 January 2013	323
1 January 2014	252
1 January 2015	272

- On 30 June 2015, one of the buildings was sold for Rs. 80 million.

Required:

Prepare a note on "Property, plant and equipment" (including comparative figures) for inclusion in AL's financial statements for the year ended 31 December 2015 in accordance with International Financial Reporting Standards. (Ignore taxation)

(ICAP Example 13)

Question-9

Shahwez Limited (SL) revalued its property on 1 April 20X1 to Rs.20 million (Rs.8 million for the land). The property originally cost Rs.10 million (Rs.2 million for the land) 10 years ago. The original useful life of 40 years is unchanged. SL's policy is to make a transfer to realised profits in respect of excess depreciation.

Required:

How will the property be accounted for in the year ended 31 March 20X2?

(ICAP Example 14)

Question-10

Hamza Limited (HL) acquired a building on 1 April 20X1 for Rs.100,000 at which point it was considered to have a useful life of 40 years. At the year end 31 March 20X6, HL decided to revalue the building to its current value of Rs.98,000.

Required:

How will the building be accounted for in the year ended 31 March 20X6?

(ICAP Example 15)

Question-11

- When the asset should be derecognised from the balance sheet? What is the accounting treatment for gain or loss on disposal for revaluation model?
- What is the disclosure requirement of asset carried at revalued amount?

Question 12

Abbas Limited (AL) is engaged in the business of manufacturing near the Karachi-Hyderabad Motorway. Its Property, Plant and Equipment comprises of land and buildings, plant and machinery, and equipment and fittings.

Details for the period up to 30 June 2018 are as follows:

- The balances of the Property, Plant and Equipment as at 30 June 2018 are given below:

Assets	Gross Carrying Amount (Rs. Million)	Accumulated Depreciation (Rs. Million)
Land	12	N/A
Buildings	125	38
Plant and Machinery	500	300
Equipment	100	36

- The relevant information pertaining these assets is given below:

Assets	Depreciation Method	Subsequent Measurement Model
Land	N/A	Fair Value
Buildings	Straight-line	Cost
Plant and Machinery	Units of Production	Cost
Equipment	Written down value	Cost

- Abbas Limited uses proportionate policy to depreciate its Property, Plant and Equipment.
- All of the plant and machinery pertains to factory use whereas all the equipment pertains to office use. However floor areas occupied by factory and office are in the ratio 60:40 respectively.
- The equipment was purchased on 1 July 2016. No disposals and acquisitions took place in the period up to 30 June 2018.

6. Until 30 June 2018, 12,000 units had been produced by Abbas Limited in its factory. The plant and machinery does not have any residual value. No additions or disposals of plant and machinery took place till this date.
 7. The buildings were acquired on 1 July 2014 with a residual value of Rs. 11 million. No additions and disposals took place till 30 June 2018.
 8. The land had actually cost Rs. 15 million on the date of its acquisition.
 9. It is assumed that value of land and buildings is spread evenly across the area occupied.
- The following information pertains to the year ended 30 June 2019:

1. On 1 July 2018, land was revalued to Rs. 20 million on 1 July 2018. The value was determined by an independent firm M/s Ashfaq & Co. Chartered Accountants.
2. This year, 5,000 units were produced in the factory of AL.
3. On January 1, 2019, AL disposed 25% of its area comprising of land and buildings at a price of Rs. 90 million. The portion of land was sold at its fair value as determined on 1 July 2018. The legal costs of drafting transfer agreements were Rs. 0.1 million. It is assumed that this disposal will not affect the proportion of areas occupied by factory and office.
4. Further equipment costing Rs. 60 million was acquired on 1 November 2018.
5. In the meeting of its board of directors, it was decided to open a new factory premises near Lahore-Islamabad motorway. An expenditure of Rs. 20 million was spent on the construction of the factory on 1 December 2018, financed by a loan obtained from the bank at the rate of 12% per annum. The construction had not been completed at the end of the year.
6. Moreover, the directors also made a contract with M/s UniPower & Co. to purchase plant and machinery worth Rs. 35 million once the construction of factory building is completed.

Required:

- (a) Prepare journal entries to record the revaluation of land and disposal of land and buildings.
- (b) Prepare the disclosure under IAS 16 in relation to Property, Plant and Equipment in the notes to the published accounts for the year ended 30 June 2019. *(ICAP Example 16)*

Question 13

Games Limited (GL) commenced a business of preparing and burning video game CDs on 1 July 2015.

The following information pertains to the year ended 31 March 2016:

- (1) GL purchased 30 computers on the date of commencement of business at a cost of Rs.20,000 each, purely for the task of burning CDs. The management of GL estimates that since the computers are subject to obsolescence, more of its benefit can be derived in its early life. The total useful life at the date of acquisition was estimated to be 4 years and residual value was estimated to be Rs. 4,802 for each computer. GL decided to adopt historical cost model for subsequent measurement of computers.
- (2) GL purchased an office building at the date of start of business worth Rs.3 million. GL decided to adopt fair value model due to fluctuations in property prices. 80% of the building is occupied by computer labs, whereas 20% is used by administrative and selling departments. The useful life is estimated to be 10 years at the date of acquisition with no residual value, and the economic benefits are expected to be derived evenly over its useful life. At the end of the year, the fair value of office buildings was assessed to be Rs.3,237,500.
- (3) GL also purchased fittings for its administrative and selling departments, costing Rs.120,000 on 1 July 2015. It is to be depreciated over 10 years using the straight-line method, with no residual value.

- (4) GL made a contractual commitment with Al-Karim Computers to purchase 6 computers of Rs. 20,000 each to be delivered at GL's premises on 1 May 2016.

The following information pertains to the year ended 31 March 2017:

- (1) The computers were delivered at the GL's premises by Al-Karim Computers at the said date. It was decided to use the same method and same rate to depreciate these computers. However, no further space was utilised by the computer labs.
- (2) At the end of the year, the fair value of office building was assessed to be Rs. 2 million. At the year-end GL mortgaged entire building with JS Bank to obtain a loan worth Rs.1.75 million for prospective investments in other divisions.
- (3) Fittings with a cost of Rs. 30,000 were disposed of for Rs. 22,000 on 1 January 2017. The Suzuki Driver was paid Rs. 1,000 to transfer the fittings to customer's premises.

The fair values of the office building were determined by an independent firm M/s Hafeez Yasir Chartered Accountants & Co. Moreover, GL uses proportionate policy to depreciate its assets.

Required:

- (a) Prepare the disposal account to record the sale of fittings on 1 January 2017.
- (b) Prepare the disclosure under IAS 16 in relation to Property, Plant and Equipment in the notes to the published accounts for the year ended 31 March 2017 (comparatives are required). *(ICAP Example 17)*

Question 14

Indigo Limited (IL) purchased a building on 1 April 2015 for Rs.10 million at which point it was considered to have a useful life of 40 years. At the year ended 31 March 2020, IL decided to revalue the building to its market value of Rs.9.8 million.

Required:

How the above building shall be accounted for in the books of IL for the year ended 31 March 2020?

(ICAP Example 18)

Question 15

At 1 April 2019, Glacier Limited (GL) carried its office at its original cost of Rs.20 million and depreciation of Rs.4 million (based on straight line method to its original life of 50 years). GL decided to revalue the office on 1 October 2019 to its current value of Rs.22 million. The useful life remaining was reassessed at the time of valuation and is considered to be 40 years at this date. It is the company's policy to charge depreciation proportionally.

Required:

How the office will be accounted for in the financial statements of GL for the year ended 31 March 2020?

(ICAP Example 19)

Question 16

Following information pertains to plant and machinery of Alpha Enterprises (AE):

- (i) As at 1 January 2018, balances of cost and accumulated depreciation amounted to Rs.12,700,000 and Rs.6,240,000 respectively.
- (ii) On 1 April 2018, an old machine having fair value of Rs.340,000 was exchanged for a new machine. The balance of the purchase price was paid through a cheque of Rs.680,000. The list price of the new machine was Rs.1,130,000. The old machine had been acquired for Rs.870,000 on 1 September 2015.

- (iii) On 1 February 2018, a plant having a list price of Rs.10,000,000 was acquired. A trade discount of 5% was allowed on the list price. The plant was ready for use on 1 August 2018 after incurring the following costs:

	Rs. in '000
Freight charges	660
Consultant fees	540
Installation and testing	600
Administration and other general overheads	160
Staff training	120
Opening ceremony	100
	2,180

- (iv) On 31 October 2018, another machine was sold for Rs.334,000. It was acquired on 1 January 2015 and had a net book value of Rs.512,000 on 1 January 2018. A cost of Rs.25,000 was incurred on its disposal.
- (v) AE depreciates plant and machinery at 20% per annum using the reducing balance method.

Required:

Prepare following ledger accounts pertaining to the plant and machinery for the year ended 31 December 2018:

- (a) Cost (06)
 (b) Accumulated depreciation (06)
 (c) Assets disposal (04)

(ICAP Example 4)

Question 17

Ali Limited (AL) uses the revaluation model for subsequent measurement of its property, plant and equipment and has a policy of revaluing its assets on an annual basis using the net replacement value method.

The following information pertains to AL's building:

- The building was purchased on 01 January 2010 for Rs. 2 hundred million with expected useful life of ten years.
- AL depreciates buildings on the straight line basis over their useful life.
- The results of revaluations carried out during the last three years by Standard Valuation Service, an independent firm of values, are as follows:

Revaluation date	Fair value Rs. in million
1 January 2011	280
1 January 2012	170
1 January 2013	180

Required:

The journal entries relating to the above transactions including revaluations for the year ended December 31, 2010, 2011, 2012 and 2013.

(ICAP Example 5)

ICAP QUESTION BANK SOLUTIONS**Answer-1**

- (1) Original depreciation = $\frac{\text{Rs.550 million}}{50 \text{ years}} = \text{Rs. 11 million}$
 Revised depreciation = $\frac{\text{Rs.1,100 million}}{40 \text{ years}} = \text{Rs. 27 million}$
- (2) The total amount taken to the revaluation reserve is Rs.652 million

(W-1)

Date	Particulars	Land	Building	Revaluation surplus	Profit & Loss / (SOCl)
		-----Rs. Million-----			
1.1.11	Cost	250	400		-
31.12.14	Accumulated depreciation (400/50 × 4)		(32)		-
31.12.14	W.D.V	250	368		-
1.1.15	Revaluation surplus	270	382	652	-
1.1.15	Revaluated amount	520	750	652	-

Answer 2

- (a) IAS 16 requires that each part of an item (that has a cost that is significant in relation to the total cost) is depreciated separately. Therefore, the cost recognised at initial recognition must be allocated to each part accordingly

(b)

Date	Particulars	Hydraulic system	Frames	Total	Rev. Surplus	Profit & Loss / (SOCl)
		-----Rs. 000's-----				
1.4.15	Cost (30,800 × 30%) (30,800 × 70%)	9,240	21,560			-
31.3.16	Dep. $\left(\frac{9240}{3}\right), \left(\frac{21560}{8}\right)$	(3080)	(2695)			-
31.3.16	W.D.V	6,160	18,865	25,025		-
31.3.16	Revaluation loss	(991)	(3,034)	(4,025)		(4025)
31.3.16	Revaluated amount $\left(\frac{21,000}{25025} \times 6,160\right), \left(\frac{21,000}{25025} \times 18,865\right)$	5,169	15,831	21,000		(4025)

The carrying value of the assets should be written down by a factor of 21,000/25025. This gives a carrying value for the hydraulic system (in Rs.000) of 5,169 and for the 'frame' 15,831.

The hydraulic plant should be depreciated over remaining life of two more years and the 'frame' over 7 more years.

Date	Particulars	HIS	Frames	Total	R/S HIS	R/S Frame	P & L/ (SOCl) HSc	P & L/ (SOCl) Frames
1.4.15	Cost $(30,800 \times 30\%) (30,800 \times 70\%)$	9,240	21,560		Rs. 000's			
31.3.16	Dep. $(\frac{9240}{3}), (\frac{21560}{8})$	(3080)	(2695)				-	
31.3.16	W.D.V	6,160	18,865	25,025			-	
31.3.16	Revaluation loss	(991)	(3,034)	(4,025)			-	
31.3.16	Revaluated amount $(\frac{21,000}{25025} \times 6,160), (\frac{21,000}{25025} \times 18,865)$						(991)	(3,034)
31.3.17	Depreciation $(\frac{5169}{2}), (\frac{991}{2}), (\frac{15831}{7}), (\frac{3,034}{7})$	5,169	15,831	21,000			(991)	(3,034)
31.3.17	W.D.V	(2,585)	(2,262)				496	433
31.3.16	Revaluation surplus	2,584	13,569	16,153			(495)	(2,601)
31.3.16	Revaluated amount $(\frac{19,600}{16153} \times 2,584), (\frac{19,600}{16153} \times 13,569)$	551	2,896	3,447	56	295	495	2,601
	Hydraulic system = HS	3,135	16,465	19,600	56	295		
	Revalued surplus							

Hydraulic system = HS

Revalued surplus

The total revaluation gain is 3,447. Of this total amount, 3096 (495 + 2,601) reverses the loss in the previous year net of the benefit obtained through reduced depreciation and is therefore reported in profit and loss for the year. The remaining 351 (56 + 295) is reported as other comprehensive income.

Answer 3

IAS 16 permits assets to be carried at cost or revaluation. Where the latter is chosen, the asset must be stated at its fair value.

The original depreciation was Rs.40,000 (Rs.1,000,000/25 years) per annum.

On 31st March 2014 the asset is two years old. Its carrying value before revaluation was Rs.920,000.

In order to effect the revaluation, the cost is uplifted to fair value of Rs.1.15m, the accumulated depreciation is eliminated, and the uplift to the net book value is credited to a revaluation surplus account.

Following are the journal entries

31.3.14	Accumulated depreciation		
	Building	80,000	
	(The accumulated depreciation is eliminated)		80,000
31.3.14	Building		
	Revaluation surplus	230,000	
	(The uplift to the net book value is credited to a revaluation surplus account.)		230,000
The asset is depreciated over its remaining useful economic life of 23 years giving a charge of Rs.50,000 (Rs.1,150,000/23 years) per annum in the year to 31st March 2015.			
31.3.15	Depreciation		
	Accumulated depreciation	50,000	
	(Depreciation charge)		50,000

Transfer from revaluation surplus to retained earnings

As a result of the revaluation, the annual depreciation has increased from Rs.40,000 to Rs.50,000. This extra depreciation of Rs.10,000 is transferred from the revaluation reserve to accumulated profits each year.

31.3.15	Revalue surplus		
	Retained earning	10,000	
	(Transfer of incremental depreciation)		10,000

By the 31st March 2015, the balance remaining on the revaluation reserve will be Rs.220,000. The fall in property values at the year-end. The asset must be revalued downwards to Rs.0.8million, a write-down of Rs.300,000. Rs.220,000 of this is charged against the revaluation reserve relating to this asset, and the remaining Rs.80,000 must be charged against profits. The reduction of the carrying amount of the asset is achieved by removing the accumulated depreciation and adjusting the asset account as follows.

31.3.15	Accumulated depreciation Building (The accumulated depreciation is eliminated)	50,000	50,000
31.3.15	Revaluation surplus Profit and loss Building (Revaluation adjustment)	220,000 80,000	300,000

From 31.3.15 the Rs.800,000 will be depreciated over the remaining useful life of the asset (22 years). (W-1)

Date	Particulars	Head office building	Rev. Surplus	Profit & Loss / (SOCL)
1.4.12	Cost	1,000		
31.3.14	Acc. Dep. $\left(\frac{1000}{25} \times 2\right)$	(80)		
31.3.14	W.D.V	920		
31.3.14	Revaluation surplus	230	230	
31.3.14	Revaluated amount	1,150	230	
31.3.15	Dep. $\left(\frac{1,150}{23}\right), \left(\frac{230}{23}\right)$	(50)	(10)	
31.3.15	W.D.V	1,100	220	
31.3.15	Revaluation loss	(300)	(220)	(80)
31.3.15	Revaluated amount	800	0	(80)

Answer 4**Gross Carrying Amount**

Balance 01.January 2015

+Addition

-Transfer

+Revaluation Surplus/(Rev. Loss)

- Disposal

Balance 31.December 2015

Accumulated depreciation

Balance 01.January 2015

+Depreciation for the year *

-Transfer

- Disposal

Balance 31.December 2015

WDV 31.December 2015

WDV 31.December 2014

Land & building	Plant & machinery	Computer equipment's	Total
1,500,000	340,500	617,800	2,458,300
(620,000)	17,250	-	(620,000)
870,000	-	-	870,000
-	(80,000)	-	17,150
1,750,000	277,750	617,800	(80,000)
			2,645,550
600,000	125,900	505,800	1,231,700
20,000	50,775	44,800	115,575
(620,000)			(620,000)
	(57,000)		(57,000)
	119,675	550,600	670,275
1,750,000	158,075	67,200	1,975,275
900,000	214,600	112,000	1,226,600

WORKINGS

(W-1) Depreciation charges for the year 2015

Buildings = $\frac{(1,500,000 - 500,000)}{50 \text{ years}} =$	Rs. 20,000
Plant and machinery:	
On opening plant $((340,500 - 80,000) - (125,900 - 57,000)) \times 25\%$	47,900
Addition $(17,250 \times 25\% \times \frac{8}{12})$	2875
	50775
Computer equipment = $112,000 \times 40\% =$	Rs.44,800
(2) Cost of new machine	
Purchase price $(20,000 - 3,000 - 1,000)$	Rs. 16,000
Delivery costs	500
Installation costs	750
	17,250

Answer 5

(a) Grinder

The grinder was purchased in 2012 and was originally being depreciated on a straight line basis. It has now been decided to depreciate this on the sum of digits basis.

IAS 16 requires that depreciation methods be reviewed periodically and if there is a significant change in the expected pattern of economic benefits, the method should be changed. Depreciation adjustments should be made in current and future periods. This change might be appropriate if, for instance, usage of the machine is greater in the early years of an asset's life when it is still new and consequently it is appropriate to have a higher depreciation charge.

If the change is implemented, the unamortised cost (the net book value) of the asset should be depreciation over the remaining useful life commencing with the period in which the change is made. The depreciation charge for the remaining life of the asset will therefore be as follows.

Sr. #	Year	Digits	Depreciation
			Rs.
1	2015	7	$\text{Rs. } 70,000 \times \frac{7}{28}$ 17,500
2	2016	6	$\text{Rs. } 70,000 \times \frac{6}{28}$ 15,000
3	2017	5	12,500
4	2018	4	10,000
5	2019	3	7,500
6	2020	2	5,000
7	2021	1	2,500
$\frac{7(7+1)}{2} = 28$			Rs.70,000

Disclosure will need to be made in the accounts of:

- The details of the change, including
- The effect on the charge in the year.

The reassessment of the depreciation method is NOT a change in accounting policy and neither rectification of a fundamental error so the effects of the change will not affect the previously reported financial statements (opening retained earnings)

(b) **Leasehold land**

IAS 16 requires that the subsequent charge for depreciation should be based on the revalued amount. The annual depreciation will therefore be Rs.62,500, i.e. $\frac{\text{Rs.1,500,000}}{24 \text{ years (Remaining life)}}$

There will then be a difference between the revalued depreciation charge and the historical depreciation charge.

The resulting excess depreciation may be dealt with by a movement in reserves, i.e. by transferring from the revaluation reserve to retained earnings a figure equal to the depreciation charged on the revaluation surplus each year. For this amount following journal entry will be made

Revalue surplus
Retained earning

Answer 6

FAM

Notes to financial statement

For the year ended 31 December 2015

Note No. 2: Accounting policies

- (a) Property, plant and equipment is stated at historical cost less accumulated depreciation, except land and building which is stated at revalued amount less accumulated depreciation.
- (b) Depreciation is provided on all assets, except land, and is calculated to write down the cost or valuation over the estimated useful life of the asset.

Note No. 12: Property Plant and Equipment

Fixed asset movements	Land	Buildings	Plant and machinery	Fixtures, fittings, etc.,	Total
Cost/valuation	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Cost at 1 January 2015	500	400	1,613	390	2,903
Additions		100	154	40	294
Transfers		(80)			
Revaluation adjustment	400	280	-	-	600
Disposals			(277)	(41)	(318)
Value at 31 December 2015	900	700	1,490	389	1,979
Accumulated depreciation					
At 1 January 2015	-	80	458	140	678
Transfers	-	(80)	-	-	(80)
Depreciation for year (W2)	-	17	298	70	385
Disposals	-	-	(195)	(31)	(226)
At 31 December 2015		(17)	(561)	(179)	(757)
Net book value					
At 31 December 2015	900	683	929	210	2,722
At 31 December 2014	500	320	1,155	250	2,225

- 12.1
- | Measurement basis | Revaluation | Revaluation | Cost | Cost |
|---------------------|-------------|-------------|------|------|
| Depreciation method | | S.L | S.L | RBM |
| Depreciation rate | | 2% | 20% | 25% |
- 12.2 Land and buildings have been revalued during the year 2015 by Messrs Jackson & Co on the basis of a existing use value on the open market.
- 12.3 Had there been no revaluation the land and building would be shown at following values (The corresponding historical cost information is as follows).

	Land & buildings Rs.000
Cost	900
Opening	100
Reclassification (Transfer from capital WIP)	
Closing	1,000
Accumulation Depreciation	
Opening	80
Depreciation for the year	10
Closing	90
Net book value	910

12.4 Movement of capital work in progress

Cost at 1 January 2015	91
Additions (W1)	73
Reclassifications (Transfer to building account)	(100)
As at 31 December 2015	64
At 31 December 2014	91

WORKINGS

	Rs. 000
(W-1) Additions to assets under construction	53
Deposit on computer	20
	73
(W-2) Depreciation on buildings $\frac{600}{40} + \left(\frac{100}{50}\right)$	17
2% straight line depreciation is equivalent to a 50 year life.	
The buildings are ten years old at valuation and therefore have 40 years remaining.	
(W-3) Depreciation on plant $(1490 \times 20\%)$	298
(W-4) Depreciation on fixtures $\{(390 - 140) - (41 - 31)\} \times 25\%$	70
(W-5)	

Capital work in progress (CWIP)

	Rs.		Rs.
B/d	91	Building account	100
Cash (Building)	53		
Cash (For computer)	20	C/d	64

Orchid Limited
Notes to Financial statements
For the year ended 31 December 2017

10. Property, plant and equipment

Cost
Opening
Additions
Revaluation (W-2)
Disposal
Transfer of Acc. depreciation
Closing

Acc. Depreciation & Impairment
Opening
Dep. For the year (W-2) : (W-1)
Disposal
Impairment (W-1)
Transfer to asset account
Closing

Carrying amount as on 31/12/2016

2017		2016	
Building	Plant	Building	Plant
Rs.	Rs.	Rs.	Rs.
700	475	700	475
-	-	-	-
(108)	-	-	-
(87)	-	-	-
(42)	-	-	-
463	475	700	475
24	115	-	19
22.5	36	24	19
(4.5)	-	-	77
(42)	-	-	(115)
-	(151)	(24)	
<u>463</u>	<u>324</u>	<u>676</u>	<u>360</u>

Building
Revaluation model
Straight line
30 years

Plant
Cost model
Reducing balance
10%

10.1 Measurement Basis
Depreciation Method
Dep. Rate/Useful life

10.2 The last revaluation on 31 December 2017 by Shabbir Associates, an independent firm of valuers.
10.3 Had there been no revaluation, the buildings would have appeared as follows

Cost
Less: Accumulated depreciation
WDV as on 31.12.15

	2017	2016
(600-66)	534	600
$\left(\frac{600-66}{30} \times 3\right) : \left(\frac{600}{30} \times 2\right)$	(53.4)	(40)
	<u>480.6</u>	<u>560</u>

10.4 Details of property, plant and equipment disposed of during the year

	Cost/Revalued amount	Accumulated depreciation	Carrying amount	Sale proceeds	*Gain	Mode of disposal	Particulars of buyers
Building	87	4.5	82.5	85	0.5	Tender	Baqir Limited
		$\left(\frac{87}{29} \times 1.5\right)$					

$$\text{*Gain/(loss)} = (\text{Sale price} - \text{cost to sell}) - \text{W.D.V} = (85 - 2) - 82.5 = 0.5$$

10.5 Change in Estimate:

During the year 2017, depreciation method of plant was changed from straight line to reducing balance. The new depreciation rate would be 10%. Due to above change, Depreciation for the year has increased whereas, Profit for the year has decreased by Rs. 20 million. $\{36(360 \times 10\%) - 16(\frac{360}{23})\}$

(W-1) Plant W.D.V

1/1/2015	Cost	475
31/12/2015	Dep. (475/25)	(19)
31/12/2016	Dep. (475/25)	(19)
31/12/2016	W.D.V	437
	Impairment Loss	(77)
31/12/2016	Recoverable amount	360
31/12/2017	Dep (360*10%)	(36)
	WDV	324

(W-2) Revaluation schedule

Date	Description	Building	Rev. surplus	SOCI (P/I)
1/1/15	Cost	600		
31/12/2015	Dep. (600/30)	(20)		
31/12/2015	W.D.V	580		
31/12/2015	Rev. surplus	120	120	-
31/12/2015	Revalued amount	700	120	-
31/12/2016	Dep (700/29)	(24)	(4)	-
31/12/2016	WDV	676	116	-
30/06/2017	Dep. Of 1 building for 6 months (W-5)	(1.5)	(0.4)	-
30/06/2017	WDV of 1 building (W-6)	(82.5)	(22)	-
31/12/2017	Depreciation of remaining buildings	(21)	(3.3)	-
31/12/2017	WDV	571	90.3	-
31/12/2017	Revaluation loss	(108)	(90.3)	(17.7)
31/12/2017	Revalued Amount	463	-	(17.7)

(2.1) Total Depreciation on buildings for the year 2017

Dep. Of 1 building for 6 months (W-3)	1.5
Depreciation of remaining buildings (W-5)	21
	22.5

(W-3) Depreciation of 1 building for 6 months

$$\text{Cost} = 87/29 \times 6/12 = 1.5 \quad ; \quad \text{Surplus} = (23.2)/29 \times 6/12 = 0.4$$

(W-4) WDV of 1 building

	Rs. 'millions'	Rs. 'millions'
	Building Cost	Surplus
Balance	87	23.2
Acc. Depreciation $(87/29 \times 1.5) : (23.2/29 \times 1.5)$	(4.5)	(1.2)
	82.5	22

(W-5) Depreciation of remaining buildings for the year

Opening
Disposal
Balance
÷ Remaining Life

Rs. 'millions'	Rs. 'millions'
Building cost	Surplus
700	120
(87)	(23.2)
613	96.8
÷29	÷29
21	3.3

Answer 8

Abid Limited
Notes to the Financial Statements
For year ended December 31, 2015

N-1 Property, plant and equipment**Cost**

Opening
Transfer from accumulated depreciation
Revaluation Surplus/(loss)
Disposals
Closing

Accumulated depreciation

Opening
Transfer to asset a/c
Depreciation expense
Disposals
Closing
Book value

Rs. in million	
2015	2014
252	323
(14)	(17)
34	(54)
(68)	-
204	252.00
14	17
(14)	(17)
14	14
(2)	-
(12)	(14)
192	238.00

- The last revaluation was performed on 1 January 2015 by M/s Premier Valuation Services, an independent firm of valuers. Revaluation are performed annually.
- Had there been no revaluation, the 3 buildings would have appeared at Rs.180 million (as calculated below) on 31.12.15.

Cost of 3 buildings

Less: Accumulated depreciation on 31.12.15

(300/4 buildings × 3 buildings)
(225/20 years × 4 years)

* 300/20 × 3 = 45

Rs. in million	
2015	2014
225	300
(45)	*(45)
180	255

Details of property, plant and equipment disposed of during the year

	Cost/Revalued amount	Accumulated depreciation	Carrying amount	Sale proceeds	Mode of disposal	Particulars of buyers
-----Rs. in million-----						
Building	68	2	66	80		

WORKING

Date	Description	Building	R. Surplus	Rs in million SOCI(P/L)
1/1/12	Cost	300		
31/12/12	Depreciation (300/20)	(15)		
1/1/13	WDV	285		
1/1/13	Revaluation surplus (bal.)	38	38	
1/1/13	Revalued amount	323	38	
31/12/13	Depreciation (323/19) : (38/19)	(17)	(2)	
1/1/14	WDV	306	36	
1/1/14	Revaluation loss (bal.)	(54)	(36)	(18)
1/1/14	Revalued amount	252		(18)
31/12/14	Depreciation (252/18) : (18/18)	(14)	-	1
1/1/15	WDV	238	-	(17)
1/1/15	Revaluation surplus (bal.)	34	17	17
1/1/15	Revalued amount	272	17.00	-
30/6/15	Deprecation on Disposal (*68/17 × 6/12) : (*4.25/17 × 6/12)	(2)	(0.125)	
30/6/15	WDV of disposal (68 - 2)	(66.00)	(4.125)	
31/12/15	Depreciation (272 - 68)/17:(17 - 4.25)/17	(12.00)	(0.75)	
31/12/15	WDV	192.00	12.00	-

* 272/4 buildings = 68 and 17/4 buildings = 4.25

Following T-accounts are prepared for better understanding of students. These are not a part of solution.

Dr.		Building account		Cr.
2012	Cash	300	c/d	300
2013	b/d	300	Accumulated Depreciation	15
	Revaluation surplus	38	c/d	323
2014	b/d	323	Accumulated Depreciation	17
			Revaluation loss	54
			c/d	252
2015	b/d	252	Accumulated Depreciation	14
	Revaluation surplus	34	Disposal	68.00
			c/d	204.00

Dr.		Accumulated depreciation account		Cr.
2012	c/d	15	Depreciation	15
2013	Asset	15	b/d	15
	c/d	17	Depreciation	17
2014	Asset	17	b/d	17
	c/d	14	Depreciation	14
2015	Asset	14	b/d	14
	Disposal	2	Depreciation (1 building)	2.0
	c/d	12.00	Depreciation (3 buildings)	12.00

Answer 9**Statement of comprehensive income extract for the year ended 31 March 20X2**

	Rs. 000
Depreciation expenses	400
Other comprehensive income:	
Revaluation surplus (6,000 + 6,000) (W-1)	12,000

Statement of financial position extract as at 31 March 20X2

	Rs. 000
Non-current assets	
Property {8,000 + (12,000 - 400)}	19,600
Equity	
Revaluation surplus {6,000 + (6,000 - 200)} (W-1)	11,800

Statement of changes in equity extracts

	Retained earning Rs. 000	Revaluation surplus Rs. 000
		12,000
Total comprehensive income	200	(200)
Transfer		11,800
Closing		

(W-1)

Date	Description	Land	Building	R/S land	R/S Building	SOCI (P/L)
	Cost	2,000	8,000			
	Acc. Dep. (8,000/40 × 10)		(2,000)			
1/4/X1	WDV	2,000	6,000			
1/4/X1	Revaluation surplus (bal.)	6,000	6,000	6,000	6,000	
1/4/X1	Revalued amount	8,000	12,000	6,000	6,000	
31/3/X2	Dep. (12,000/30)		(400)		(200)	
31/3/X2	WDV	8,000	11,600	6,000	5,800	

Answer 10**Statement of comprehensive income extract for the year ended 31 March 20X6**

	Rs. 000
Depreciation expenses (100,000/40)	2,500
Other comprehensive income:	
Revaluation surplus (W-1)	10,500

Statement of financial position extract as at 31 March 20X6

	Rs. 000
Non-current assets	
Property	98,000
Equity	
Revaluation surplus	10,500

Statement of changes in equity extracts

	Retained earning	Revaluation surplus
	Rs. 000	Rs. 000
Total comprehensive income		10,500
Transfer	-	-
Closing		10,500

(W-1) Date	Description	Building	R/S Building	SOCI (P/L)
1/4/X1	Cost	100,000		-
31/3/X6	Acc. Dep. (100,000/40 × 5)	(12,500)		-
31/3/X6	WDV	87,500		-
31/3/X6	Revaluation surplus (bal.)	10,500	10,500	-
31/3/X6	Revalued amount	98,000	10,500	-

Answer 11

1. Property, Plant and Equipment should be derecognised (removed from PPE) either;
- on disposal (sold or exchanged etc. by cash for asset given up) or
 - when it is withdrawn from use and no future economic benefits are expected from the asset (in other words, it is effectively scrapped).

A gain or loss on disposal is recognised as the difference between the disposal proceeds (gross proceeds received minus cost of making sale) and the carrying value of the asset (using the cost or revaluation model) at the date of disposal. This net gain is included in the income statement. The sales proceeds should not be recognised as revenue.

Where assets are measured using the revaluation model, any remaining balance in the revaluation reserve relating to the asset disposed of is transferred directly to retained earnings. No recycling of this balance into the income statement is permitted.

2. **General disclosures**

The financial statements shall disclose, for each class of property, plant and equipment:

- the measurement bases used for determining the gross carrying amount;
- the depreciation methods used;
- the useful lives or the depreciation rates used;
- the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- a reconciliation of the carrying amount at the beginning and end of the period showing increases or decreases resulting from revaluations from comparing its revalued amount to the book value and recognize in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the revaluation increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Specific disclosures

If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:

- The effective date of the revaluation;
- Whether an independent valuer was involved;
- For each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and

- (iv) The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

Answer 12

(a)

Date	Description	Debit (Rs.,000)	Credit (Rs.,000)
1.7.18	Land Revaluation surplus Profit and loss (Other income) (Revaluation of land)	8,000	5,000 3,000
1.1.19	Cash (90,000 – 100) Accumulated depreciation (W-4) Building (125,000 × 25%) Land (20,000 × 25%) Gain on disposal (Other income) (Disposal of 25% of land & building)	89,900 10,687.5	31,250 5,000 64,337.5
1.1.19	Revaluation surplus (5,000 × 25%) Retained earning (Transfer of R/S to R/E on account of Disposal of 25% of land)	1,250	1,250

(b)

Abbas Limited**Notes to the financial statement****For the year ended 30 June 2019****10.1 Property plant & equipment**

Fixed asset movements	Land	Buildings	Plant and machinery	Fixtures, fittings, etc.,	Total
Cost/valuation / Gross carrying amount					
-----Rs. '000-----					
Cost at 1 July 2018	12,000	125,000	500,000	100,000	737,000
Additions				60,000	60,000
Revaluation adjustment	8,000				8,000
Disposals	(5,000)	(31,250)			(36,250)
Value at 30 June 2019	15,000	93,750	500,000	160,000	768,750
Accumulated depreciation					
At 1 July 2018	-	38,000	300,000	36,000	374,000
Depreciation for year		8,312.5 (W-3)	125,000 (W-6)	20,800 (W-8)	154,112.5
Disposals		(10,687.5) (W-4)			(10,687.5)
At 30 June 2019		35,625	425,000	56,800	517,425
Net book value					
At 30 June 2019	15,000	58,125	75,000	103,200	251,325
At 30 June 2018	12,000	87,000	200,000	64,000	

10.1

Measurement basis	Revaluation	Cost less Acc. Dep.	Cost less Acc. Dep.	Cost less Acc. Dep.
Depreciation method	Starlight line	Units of production	Written down value	
Depreciation rate / useful life	12 years with residual value of 8.8% of cost (W-2)	20 million units (W-5)	20% (W-7)	

- 10.2 The land was previously revalued on 1 July 2018 by M/s Ashfaq & Co. Chartered Accountants, and independent valuer.
- 10.3 Had the land been not revalued the carrying amount of land would have been as follows:

	Rs. 000
Cost {Cost 15,000 – Disposal 15,000 × 25%}	11,250

10.4

Details of property, plant and equipment disposed of during the year

	Cost/Revalued amount	Accumulated depreciation	Carrying amount	Sale proceeds	Gain / (Loss)	Mode of disposal	Particulars of buyers
Land & Building	36,200	10,687.5	25,562.5	89,900	64,337.5	N/A	ABC

10.5 Depreciation is charged as follows:

	Rs. 000
Cost of sales (Part of inventory) (125,000 + 8,312.5 × 60%)	129,987.5
Admin and selling expenses (20,800 + 10687.5 × 40%)	24125
Total	154,112.5

10.6 Movement of revaluation surplus

	Rs. 000
Opening Balance	0
Revaluation surplus	5,000
Transfer to retained earning (Disposal)	(1,250)
Closing balance	3,750

Reversal of revaluation loss of Rs. 3 million was reversed during the year.

- 10.7 An amount of expenditure of Rs.20 million was incurred on the construction of a factory near Lahore-Islamabad Motorway on 1 December 2018. This amount was capitalised as capital work-in-progress.

A further borrowing costs of Rs.1.4 million ($20 \text{ million} \times 12\% \times \frac{7}{12}$) were capitalised in respect of interest on loan obtained from the bank to finance this project.

- 10.8 A contract was made with M/s UniPower & Co. to purchase plant and machinery worth Rs.35 million once the construction of factory building is completed.

(W-1)

Date	Description	Land	R/S land	SOCI (P/L)
	Cost	15,000		
	Revaluation loss	(3,000)		(3,000)
1/7/18	WDV	12,000		(3,000)
1/7/18	Revaluation surplus (bal.)	8,000	5,000	3,000
1/7/18	Revalued amount	20,000	5,000	-

(W-2) Useful life of building

$$\text{Accumulated Depreciation} = \frac{\text{Cost} - \text{R.V.}}{\text{Useful life}} \times (\text{Cumulative Period})$$

$$38,000 = \frac{125,000 - 11,000}{\text{Useful life}} \times 4$$

$$\text{Useful life} = \frac{125,000 - 11,000}{38,000} \times 4 = 12 \text{ years}$$

(W-3) Depreciation on Building

Rs. 000

On opening assets excluding disposal $\left(\frac{125,000 - 11,000}{12}\right) \times 75\%$	7,125
On disposal $\left(\frac{125,000 - 11,000}{12}\right) \times \frac{6}{12} \times 25\% =$	1187.5
Total	<u>8,312.5</u>

(W-4) Accumulated depreciation on disposal of building

Rs. 000

$\left(\frac{125,000 - 11,000}{12}\right) \times 4.5 \times 25\% =$	10,687.5
---	----------

(W-5) production units of plant

$$\text{Accumulated Depreciation} = \frac{\text{Cost} - \text{R.V.}}{\text{total units}} \times (\text{Cumulative units produced})$$

$$300,000 = \frac{500,000 - 0}{\text{Total units}} \times 12,000$$

$$\text{Useful life} = \frac{500,000 - 0}{300,000} \times 12,000 = 20,000 \text{ units (in thousands) (i.e., 20 million units)}$$

(W-6) Depreciation on Plant

Rs. 000

On opening assets excluding disposal $\left(\frac{500,000 - 0}{20,000 \text{ units}}\right) \times 5,000 \text{ units}$	125,000
---	---------

(W-7)**Depreciation rate**

$$\text{rate} = 1 - \sqrt[\text{cumulative period}]{\frac{\text{WDV}}{\text{Cost}}}$$

$$\text{rate} = 1 - \sqrt[2]{\frac{100,000 - 36,000}{100,000}} = 20\%$$

(W-8)**Depreciation on equipment**

Rs. 000

On opening assets excluding disposal $(100,000 - 36,000) \times 20\%$	12,800
On addition $60,000 \times 20\% \times \frac{8}{12}$	8,000
Total	<u>20,800</u>

Answer 13

Games Limited
Notes to the Financial Statement
For the year ended March 31, 2017

10. Property Plant & Equipment

Gross Carrying Amount

	2017			2016		
	Building	Computers	Fittings	Building	Computers	Fittings
Balance 01 April	3,237,500	600,000	120,000	-	-	-
+Addition	-	120,000	-	3,000,000	600,000	120,000
-Transfer	(350,000)	-	-	(225,000)	-	-
+Revaluation Surplus/(Rev. Loss)	(887,500)	-	-	462,500	-	-
- Disposal	-	-	(30,000)	-	-	-
Balance 31. March	2,000,000	720,000	90,000	3,237,500	600,000	120,000

Accumulated Depreciation & Impairment Losses

	Building	Computers	Fittings	Building	Computers	Fittings
Balance 01 April	-	135,000	9,000	-	-	-
+Depreciation for the year (W-3)	350,000	172,500	11,250	225,000	135,000	9,000
-Transfer	(350,000)	-	-	(225,000)	-	-
- Disposal	-	-	(4,500)	-	-	-
+Impairment Loss	-	-	-	-	-	-
Balance 31. March	-	(307,500)	(15,750)	-	(135,000)	(9,000)
WDV 31. March	2,000,000	412,500	74,250	3,237,500	465,000	111,000

10.1 Measurement Basis

Depreciation Method Useful Life/Depreciation Rate	Revaluation Straight Line 10%	Cost less Acc. Dep. Reducing Balance Method 30% (W-2)	Cost less Acc. Dep. Straight Line 10%
---	-------------------------------------	---	---

10.2 Depreciation is charged as Follows

	2017		2016	
	Cost of sales	Admin	Cost of sales	Admin
Computer	172,500			
Building	280,000	70,000	180,000	45,000
Fittings	350,000 × 80%	350,000 × 20%	225,000 × 80%	225,000 × 20%
	-	11,250	-	9,000
Total Depreciation	452,500	81,250	315,000	54,000

10.3 Revaluation disclosure

10.3.1 The last revaluation of building was performed by an independent valuer "M/S Hafeez Yasir Chartered Accountants & Co." on 31.March.2017. It was previously revalued on 31 March 2016.

10.3.2 Had there been no revaluation the carrying amount of building would have been

	2017	2016
Cost	3,000,000	3,000,000
Accumulated Depreciation	525,000	225,000
$(3,000,000 \times 10\% \times \frac{9+12}{12})$ $(3,000,000 \times 10\% \times \frac{9}{12})$		
Carrying Amount	2,475,000	2,775,000

10.3.3 Movement of revaluation surplus

	2017	2016
Opening Balance	462,500	-
Revaluation surplus / (loss)	(412,500)	462,500
Transfer to retained earnings (incremental depreciation)	(50,000)	
Closing balance	-	462,500

Further more a revaluation loss of Rs. 475,000 was charged in profit and loss at 31 March 2017

- 10.4 The entire office building was mortgage with the JS Bank on 31 March 2017, for obtaining loan of 1.75 million for the prospective investment in other division
- 10.5 No contractual commitments were made during the year ended 31 March 2017 to purchase Property, Plant and Equipment.

A contract was made with Al-Karim Computers during the year ended 31 March 2016 to purchase 6 computers of Rs. 20,000 each to be delivered on 1 May 2017.

10.6 **Details of property, plant and equipment disposed of during the year**

	Cost / Revalued amount	Accumulated depreciation	Carrying amount	Net Sale proceeds	Mode of disposal	Gain / (Loss)	Particulars of buyers
Fittings	30,000	4,500	26,500	*21,000	N/A	(5,500)	ABC

* (22,000 – 1,000)

WORKINGS

(W-1) Calculation of revaluation surplus & depreciation on building.

Date	Description	Building	R. Surplus	
1-July-15	Cost	3,000,000		
31-Mar-16	Depreciation $\left(\frac{3,000,000}{10} \times \frac{9}{12}\right)$	(225,000)		
31-Mar-16	WDV	2,775,000		
31-Mar-16	Revaluation surplus (bal)	462,500	462,500	
31-Mar-16	Revalued amount	3,237,500	462,500	
31-Mar-17	Depreciation $\left(\frac{3,237,500}{9.25}\right) \left(\frac{462,500}{9.25}\right)$	(350,000)	(50,000)	
31-Mar-17	WDV	2,887,500	412,500	
31-Mar-17	Revaluation surplus (bal.)	(887,500)	(412,500)	(475,000)
31-Mar-17	Revalued amount	2,000,000	-	(475,000)

(W-2) Depreciation Rate of Computers

$$\text{rate} = 1 - \sqrt[\text{life}]{\frac{\text{Residual value}}{\text{Cost}}}$$

$$\text{rate} = 1 - \sqrt[4]{\frac{4802}{20,000}} = 30\%$$

(W-3) Depreciation for the year for 2016 and 2017

		Rs.	Rs.
1	Building Depreciation 2016 = refer (W-1)		225,000
2	Building Depreciation 2017 = refer (W-1)		350,000
3	Computers Depreciation 2016 = $630,000 \times 30\% \times \frac{9}{12}$		135,000
4	Computers Depreciation 2017		
	Depreciation on opening $(600,000 - 135,000) \times 30\%$	139,500	
	Depreciation on addition $120,000 \times 30\% \times \frac{11}{12}$	33,000	172,500
5	Fittings Depreciation 2016 = $\left(\frac{120,000}{10} \times \frac{9}{12}\right)$		9,000
6	Fittings Depreciation 2017		
	Depreciation on opening excluding disposal $(120,000 - 30,000) \times 10\%$	9,000	
	Depreciation on disposal $\left(\frac{30,000}{10} \times \frac{9}{12}\right)$	2,250	11,250

Answer 14**Statement of comprehensive income extract for the year ended 31 March 2020****Profit or loss account:**

Depreciation charge = Rs.0.25 million (W1) Other

comprehensive income:

Revaluation gain = Rs.1.05 million (W2)

Statement of financial position extract as at 31 March 2020

Building at valuation = Rs.9.8 million

Statement of changes in equity extract for the year ended 31 March 2020**Revaluation reserve**

Revaluation gain = Rs.1.05 million (W2)

Workings:

Revaluation takes place at year end, therefore a full year of depreciation must first be charged.

(W1) Depreciation for the year ended 31 March 2020

Rs.10 million / 40 years = Rs.0.25 million

(W2) Revaluation

Carrying value of building at revaluation date $(10 \text{ m} - (10 \text{ m}/40 \text{ years} \times 5 \text{ years})) = \text{Rs.}8.75 \text{ m}$ Revaluation

of building = Rs.9.8 m

Gain on revaluation = Rs.1.05 m

Answer 15**Statement of comprehensive income extract for the year ended 31 March 2020**

Depreciation charge $(200,000 \text{ (W1)} + 275,000 \text{ (W3)}) = \text{Rs.} 475,000$

Other comprehensive income:

Revaluation gain (W2) = Rs.6.2 million

Statement of financial position extract as at 31 March 2020

Revaluation (office) = Rs. 22 million

Subsequent depreciation (W3) = $(\text{Rs.} 275,000)$ Carrying value = Rs. 21,725,000

Statement of changes in equity extract for the year 31 March 2020

Revaluation reserve (gain) = Rs. 6,200,000 (W2)

Workings:

Revaluation takes place part way through the year and therefore depreciation must first be charged for the period 1 April 2019 – 30 September 2019, then the revaluation occurs so the depreciation needs to be charged for the period 1 October 2019 – 31 March 2020 on current market value.

(W1) Depreciation

1 April – 30 September 2019 = $\text{Rs.}20 \text{ million} \times 6/12 / 50 \text{ years} = \text{Rs.} 200,000 \text{ (W2)}$

Revaluation

The carrying value of the asset at 1 October 2019 can now be found and revalued.

Carrying value of office at revaluation date $(20,000,000 - (4,000,000 + 200,000)) = \text{Rs.} 15,800,000$

Revaluation of office = Rs.22 million

Gain on revaluation = Rs. 6,200,000

(W3) Depreciation

1 October 2019 – 31 March 2020 $\Rightarrow$ Rs. 22,000,000 $\times$ 6/12 / 40 years = Rs. 275,000

Answer 16**Alpha Enterprises**

Plant and machinery - Cost			Description		Rs. in '000
Date	Description	Rs. in '000	Date	Description	Rs. in '000
1-Jan-2018	Balance	12,700	1-Apr-2018	Assets disposal	870
1-Apr-2018	Exchanged (340 + 680)	1,020	31-Oct-2018	Assets disposal (W-2)	1,000
1-Aug-2018	Capital work in progress (W-4)	11,300	31-Dec-2018	Balance	23,150
		25,020			25,020

Accumulated depreciation - Plant and machinery			Description		Rs. in '000
Date	Description	Rs. in '000	Date	Description	Rs. in '000
1-Jan-2018	Balance	6,240	1-Apr-2018	Assets disposal (W-1)	376
31-Oct-2018	Assets disposal (W-2)	573	31-Dec-2018	Depreciation exp. (W-3)	2,292
		7,583			
31-Dec-2018	Balance	8,532			8,532

Assets disposal - Plant and machinery			Description		Rs. in '000
Date	Description	Rs. in '000	Date	Description	Rs. in '000
1-Apr-2018	Cost	870	1-Apr-2018	Acc. depreciation (W-1)	376
31-Oct-2018	Cost	1,000	1-Apr-2018	Cost (Trade in)	340
31-Oct-2018	Bank (disposal cost)	25	31-Oct-2018	Acc. depreciation (W-2)	573
			31-Oct-2018	Bank (Sales proceeds)	334
			31-Dec-2018	Loss on disposal (P&L)	272
		1,895			1,895

WORKINGS**(W-1) Accumulated depreciation – Machine exchange**

Cost (01-09-15)	(870 $\times$ 20% $\times$ 4/12)	870
Depreciation expense (31-12-15)		(58)
WDV (31-12-15)		812
Depreciation expense (31-12-16)	(812 $\times$ 20%)	(162)
WDV (31-12-16)		650
Depreciation expense (31-12-17)	(650 $\times$ 20%)	(130)
WDV (31-12-17)		520
Depreciation expense (31-03-18)	(520 $\times$ 20% $\times$ 3/12)	(26)
WDV (31-03-18)		494

31-03-18 Accumulated depreciation (Cost - WDV) (870 – 494) 376

(W-2) Accumulated depreciation – Machine sold

Accumulated depreciation = Cost – WDV
 Accumulated depreciation = 1,000 – 427 = 573

	Rs. in '000
WDV as at 01-01-2018	512
Depreciation for 2018	(85)
WDV as at 31-10-2018	427

(W-2.1) Cost of machine sold

Cost (01-01-15)		100
Depreciation expense (31-12-15)	$(100 \times 20\% \times)$	(20)
WDV (31-12-15)		80
Depreciation expense (31-12-16)	$(80 \times 20\%)$	(16)
WDV (31-12-16)		64
Depreciation expense (31-12-17)	$(64 \times 20\%)$	(12.8)
WDV (31-12-17)		51.2
Cost	$(512/51.2 \times 100)$	1,000

Alternatively working of cost may be

Cost	$[512 \div (0.8)^3]$	1,000
------	----------------------	-------

(W-3) Depreciation expense for the year:

		Rupees
On opening assets excluding disposals	$(12700 - 6240) - 520(W-1) - 512 = 5428 \times 20\%$	1,086
On additions		
Machine	$1,020 \times 0.2 \times 9 \div 12$	153
Plant	$11,300 (W-4) \times 0.2 \times 5 \div 12$	942
On disposals		
Machine exchange	(W-1)	26
Machine sold	(W-2)	85
		<u>2,292</u>

(W-4) Cost of the plant:

		Rs. in '000
Purchase price of the plant	$10,000 \times 0.95$	9,500
Other relevant cost	$660 + 540 + 600$	1,800
		<u>11,300</u>

Answer 17

Date	- Property, plant and equipment	Debit	Credit
		---- Rs. in million ----	
January 01, 2010	Building	200	
	Account Payable		200
December 31, 2010	Depreciation (200/10 years)	20	
	Accumulated depreciation		20
January 01, 2011	Accumulated depreciation	20	
	Building		20
January 01, 2011	Building (280 – (200 – 20))	100	
	Revaluation surplus (OCI)		100
December 31, 2011	Depreciation (200/9 years)	31	
	Accumulated depreciation		31
December 31, 2011	Revaluation surplus (OCI) (31 – 20)	11	
	Retained earnings		11
January 01, 2012	Accumulated depreciation	31	
	Building		31
January 01, 2012	Revaluation surplus (OCI) ((280 – 31) – 170))	79	
	Building		79
December 31, 2012	Depreciation (170/8 years)	21.25	
	Accumulated depreciation		21.25
December 31, 2012	Revaluation surplus (21.25 – 20)	1.25	
	Retained earnings		1.25
January 01, 2013	Accumulated depreciation	21.25	
	Building		21.25
January 01, 2013	Building	31.25	
	Revaluation surplus (180 – (170 – 21.25))		31.25
December 31, 2013	Depreciation (180/7 years)	25.7	
	Accumulated depreciation		25.7
December 31, 2013	Revaluation surplus (OCI) (25.7 – 20)	5.7	
	Retained earnings		5.7

ICAP MULTIPLE CHOICE QUESTIONS (MCQs)

- Q.1** An entity purchased a property 15 years ago at a cost of Rs.100,000 and have been depreciating it at a rate of 2% per annum, on the straight-line basis. The entity has had the property professionally revalued at Rs.500,000.

What is the revaluation surplus that will be recorded in the financial statements in respect of this property?

- (a) Rs.400,000 (b) Rs.500,000
(c) Rs.530,000 (d) Rs.430,000

- Q.2** An entity owns two buildings, A and B, which are currently recorded in the books at carrying amounts of Rs.170,000 and Rs.330,000 respectively. Both buildings have recently been valued as follows:

Building A Rs.400,000

Building B Rs.250,000

The entity currently has a balance on the revaluation surplus of Rs. 50,000 which arose when building A was revalued several years ago. Building B has not previously been revalued.

What double entry will need to be made to record the revaluations of buildings A and B?

- (a) Dr Non-current assets Rs.150,000
Dr Statement of profit or loss Rs.80,000
Cr Other comprehensive income (revaluation surplus) Rs.230,000
(b) Dr Non-current assets Rs.150,000
Dr Statement of profit or loss Rs.30,000
Cr Other comprehensive income (revaluation surplus) Rs.180,000
(c) Dr Non-current assets Rs.150,000
Cr Other comprehensive income (revaluation surplus) Rs.150,000
(d) Dr Non-current assets Rs.150,000
Dr Statement of profit or loss Rs.50,000
Cr Other comprehensive income (revaluation surplus) Rs.200,000

- Q.3** An entity purchased property for Rs.6 million on 1 July 2013. The land element of the purchase was Rs.1 million. The expected life of the building was 50 years and its residual value nil. On 30 June 2015 the property was revalued to Rs.7 million, of which the land element was Rs.1.24 million and the buildings Rs.5.76 million. On 30 June 2017, the property was sold for Rs.6.8 million.

What is the gain on disposal of the property that would be reported in the statement of profit or loss for the year to 30 June 2017?

- (a) Gain Rs.40,000 (b) Loss Rs.200,000
(c) Gain Rs.1,000,000 (d) Gain Rs.1,240,000

- Q.4** Which of the following statements are correct?

1. If the revaluation model is used for property, plant and equipment, revaluations must subsequently be made with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value at each reporting date.
X 2. When an item of property, plant and equipment is revalued, there is no requirement that the entire class of assets to which the item belongs must be revalued.

- (a) Only statement 1 is correct (b) Only statement 2 is correct
 (c) Both statements are correct (d) None of the statement is correct

Q.5 The following trial balance extract relates to a property which is owned by Maira Limited as at 1 April 2014.

	Dr Rs. 000	Cr Rs. 000
Property at cost (20 year original life)	12,000	
Accumulated depreciation as at 1 April 2014		3,600

On 1 October 2014, following a sustained increase in property prices, Maira Limited revalued its property to Rs.10.8 million.

What will be the depreciation charge in Maira Limited's statement of comprehensive income for the year ended 31 March 2015?

- (a) Rs.540,000 (b) Rs.570,000
 (c) Rs.700,000 (d) Rs.800,000

Q.6 A company purchased a building on 1 April 2007 for Rs.10,000,000. The asset had a useful economic life at that date of 40 years. On 1 April 2009 the company revalued the building to its current fair value of Rs.12,000,000.

What is the double entry to record the revaluation?

- (a) Dr. Building 1,500,000
 Dr. Accumulated depreciation 500,000
 Cr. Other comprehensive income 2,000,000
 (b) Dr. Building 2,000,000
 Dr. Accumulated depreciation 500,000 Cr. Profit or loss 2,500,000
 (c) Dr. Building 2,000,000
 Dr. Accumulated depreciation 500,000 Cr. Other comprehensive income 2,500,000
 (d) Dr. Building 1,500,000
 Dr. Accumulated depreciation 500,000 Cr. Profit or loss 2,000,000

Q.7 The carrying value of property at the end of the year amounted to Rs.108 million. On this date the property was revalued and was deemed to have a fair value of Rs.95 million. The balance on the revaluation reserve relating to the original gain of the property was Rs.10 million.

What is the double entry to record the revaluation?

- (a) Dr. Profit or loss 3 million
 Dr. Other comprehensive income 10 million
 Cr. Property 13 million
 (b) Dr. Profit or loss 10 million
 Dr. Other comprehensive income 3 million
 Cr. Property 13 million
 (c) Dr. Profit or loss 13 million
 Dr. Other comprehensive income 3 million
 Cr. Property 16 million
 (d) Dr. Profit or loss 13 million
 Cr. Property 13 million

- Q.8** A company revalued its property on 1 April 2009 to Rs.20m (Rs.8m for the land). The property originally cost Rs.10m (Rs.2m for the land) 10 years ago. The original useful economic life of 40 years is unchanged. The company's policy is to make a transfer to realized profits in respect of excess depreciation.
- At which amount the property be presented at as at 31 March 2010?
- (a) Rs.20 million (b) Rs.19.6 million
(c) Rs.12 million (d) Rs.11.6 million
- Q.9** A company revalued its property on 1 April 2009 to Rs.20m (Rs.8m for the land). The property originally cost Rs.10m (Rs.2m for the land) 10 years ago. The original useful economic life of 40 years is unchanged. The company's policy is to make a transfer to realized profits in respect of excess depreciation.
- What is amount of balance in revaluation surplus account as at 31 March 2010?
- (a) Rs.12 million (b) Rs.10 million
(c) Rs.9.8 million (d) Rs.11.8 million
- Q.10** Which of the following is an optional disclosure requirement of IAS 16?
- (a) Measurement bases for determining gross carrying amount
(b) Depreciation method
(c) Useful lives or depreciation rates
(d) The carrying amount of temporarily idle PPE
- Q.11** Following information is available for equipment account of a business on 1st January 2018:
- | | |
|--|----------------|
| Opening balance of equipment a/c (Revalued amount) | Rs.7,500,000 |
| Surplus on revaluation of equipment a/c | Rs.2,000,000 |
| At start of year company sold equipment for | Rs.90,000,000. |
- Company has a policy of charging 20% depreciation on straight line basis.
- What will be treatment of revaluation surplus at disposal of asset?
- (a) Dr Surplus on revaluation Rs.2,000,000
Cr Retained earnings Rs.2,000,000
(b) Dr Retained earnings Rs.2,000,000,
Cr Surplus on revaluation Rs.2,000,000
(c) Dr Surplus on revaluation Rs.3,500,000
Cr Retained earnings Rs.3,500,000
(d) Dr Surplus on revaluation Rs.2,000,000
Cr Equipment account Rs.2,000,000
- Q.12** A non-current asset costing Rs.216,000 and carrying value Rs.145,000 is revalued to Rs.291,000. How should revaluation be recorded?
- (a) Dr Asset a/c Rs.75,000,
Cr Surplus on revaluation Rs.75,000
(b) Dr Asset a/c Rs.75,000,
Dr Accumulated Depreciation Rs.71,000,
Cr Surplus on revaluation Rs.146,000

- Q.17** A business purchased building costing Rs.7,500,000 on 1 January 2018. The policy of business is to charge straight line depreciation over its useful life of 20 years. On 31 December 2020, building was revalued to Rs.7,650,000. What is the amount of incremental depreciation to be transferred to retained earnings at year ending 31 December 2021?
Rs. _____
- Q.18** A business purchased an asset on 1 January 2016 costing Rs.5,000,000 having a useful life of 10 years with nil residual value. On 1 January 2018 balance of accumulated depreciation was Rs.1,000,000. Asset is revalued to Rs.4,500,000 on 1 January 2018 (start of the year). Business has a policy to charge straight line depreciation. What is the depreciation charge for the year ended 31 December 2018?
Rs. _____
- Q.19** A business purchased an asset on 1 January 2016 costing Rs.5,000,000 having a useful life of 10 years with nil residual value. On 1 January 2018 balance of accumulated depreciation was Rs.1,000,000. Asset is revalued to Rs.4,500,000 on 1 January 2018 (start of the year). Business has a policy to charge straight line depreciation. What is the amount of revaluation surplus at the date of revaluation?
Rs. _____
- Q.20** A business purchased an asset on 1 January 2016 costing Rs.5,000,000 having a useful life of 10 years with nil residual value. On 1 January 2018 balance of accumulated depreciation was Rs.1,000,000. Asset is revalued to Rs.4,500,000 on 1 January 2018 (start of the year). Business has a policy to charge straight line depreciation. What is the amount of incremental depreciation for the year ended 31 December 2018?
Rs. _____
- Q.21** A revaluation gain is credited into?
- | | |
|-------------------------|----------------------|
| (a) Revaluation reserve | (b) Capital reserve |
| (c) Profit and loss | (d) Any of the above |
- Q.22** After initial recognition, an entity has a choice to choose cost and?
- | | |
|-----------------------|--------------------------|
| (a) Realizable model | (b) Replacement model |
| (c) Revaluation model | (d) Carrying value model |
- Q.23** When an item of property, plant and equipment is revalued, what should be revalued?
- | |
|---|
| (a) A selection of assets decided by management |
| (b) The whole class of assets to which it belongs |
| (c) The individual asset |
| (d) A selection of assets picked at random |
- Q.24** If an asset increases in value, the increase is noted as?
- | |
|---|
| (a) An increase in net profit in the SOCI |
| (b) An increase in retained earnings in SOFP |
| (c) An increase in revaluation surplus in the SOFP and other comprehensive income in the SOCI |
| (d) An increase in "other profit" in SOCI |

- Q.25** Which of the following is not a valid reason for reporting non-current assets at revaluation amount rather than cost?
- (a) To prevent long life assets from being reported at out of date historical costs
 - (b) To keep owners of the business better informed of their equity in the business.
 - (c) To report performance correctly by matching earnings with the proper costs of assets used.
 - (d) To avoid having to pay higher taxes

- Q.26** An entity has a policy of revaluing its PPE. An asset cost Rs.5m on 1 January 2020 and has a useful life of five years and is depreciated on a straight-line basis to a zero residual value. The value of the asset at 31 December 2020 was Rs.3.8m. The fall in value will be accounted for as follows?

- (a) Depreciation Rs.1m and fall in value of Rs.200,000 both to the reserves
- (b) Depreciation Rs.1m to the income statement and fall in value of Rs.200,000 ignored until there is a revaluation surplus
- (c) Depreciation Rs.1m to income statement and fall in value of Rs.200,000 to the reserves
- (d) Depreciation Rs.1m and fall in value of Rs.200,000 both to the income statement

- Q.27** During the financial year, Akmal Ltd had the following increases in reserves:

- i. Rs.5 million from a revaluation of freehold premises
- ii. Rs.10 million in share premium
- iii. Rs.25 million from trading profit retained

Which of these are increases in capital reserves?

- (a) I only
- (b) II only
- (c) I. and ii. Only
- (d) III. only

- Q.28** The following gains may legally be withdrawn from the company by shareholders:

- i. gains that arise from the upward revaluation of non-current assets
- ii. gains that arise from the sale of non-current assets

What is the validity of each statement?

- (a) Both i. and ii are true
- (b) i. is true and ii. is false
- (c) Both i. and ii are false
- (d) ii. is true and i. is false

- Q.29** The financial statements of Saadi Limited for the most recent year indicated the following:

- i. a bonus issue of shares
- ii. a transfer of profit retained to retained earnings
- iii. an increase in the revaluation reserve due non-current assets
- iv. a rights issue of shares

Which of the above involved a movement of cash?

- (a) i. and ii
- (b) ii. and iii.
- (c) iii only
- (d) iv only

- Q.30 An apartment is revalued upwards by Rs. 1 million. It was acquired 5 years ago for Rs. 5 million. Its useful life remains same as 10 years.
What is the revised depreciation charge for the year after revaluation?
- (a) Rs.500,000 (b) Rs.600,000
(c) Rs.700,000 (d) Rs.800,000
- Q.31 A building is revalued upwards by Rs.2 million. It was acquired five years ago for Rs.10 million. Its useful life remains same as 20 years. What is the incremental depreciation charge for the year?
- (a) Rs.100,000 (b) Rs.133,333
(c) Rs.166,667 (d) Rs.200,000
- Q.32 An IT equipment being carried at revaluation model has revaluation reserve balance of Rs.50,000. During the year, it reduces its value due to technological obsolescence. It has Rs.70,000 decrease in value. What would be the impact of this revaluation decrease?
- (a) The decrease of Rs.50,000 is debited to revaluation reserve and Rs.20,000 to profit or loss for the year
(b) The decrease of Rs.50,000 is debited to profit and loss account and Rs.20,000 to revaluation reserve for the year
(c) The whole decrease is debited to revaluation reserve
(d) The whole decrease is debited to profit or loss for the year
- Q.33 The correct accounting treatment of initial operating losses incurred during the commercial production due to under-utilization of the plant would be to:
- (a) capitalise as a directly attributable cost
(b) defer and charge to profit or loss account when profit is earned from the plant
(c) charge directly to retained earnings since these are not considered to be normal operating losses
(d) charge to profit or loss account
- Q.34 Which of the following is NOT considered as an item of property, plant and equipment?
- (a) A standby generator expected to be used for seven years
(b) A plot of land held for resale
(c) A bus for pick and drop of staff members
(d) A generator for rental to others
- Q.35 An entity acquires a plant in exchange of old machinery which has carrying amount of Rs. 760,000 and fair value of Rs. 750,000 at the date of exchange. The list price of plant acquired is 850,000. The entity is also required to pay cash of Rs. 55,000 in this exchange transaction. At which amount the acquired plant should be initially recognised?
- (a) Rs. 850,000 (b) Rs. 760,000
(c) Rs. 815,000 (d) Rs. 805,000
- Q.36 An item of plant was purchased on 1 April 2008 for Rs. 2,000,000 and is being depreciated at 25% on a reducing balance basis. What would be its residual value after its useful life of 5 years?
- (a) Rs. 632,809 (b) Rs. NIL
(c) Rs. 474,609 (d) Rs. 400,000

- Q. 37.** A non-current asset cost Rs.96,000 and was purchased on 1 June Year 1. Its expected useful life was five years and its expected residual value was Rs.16,000. The asset is depreciated by the straight-line method.
- The asset was sold on 1 September Year 3 for Rs.68,000. There were no disposal costs. It is the company policy to charge depreciation on a monthly basis. The financial year runs from 1 January to 31 December.
- What was the gain or loss on disposal?
- Rs. _____
- Q.38** A non-current asset was purchased on 1 June Year 1 for Rs.216,000. Its expected life was 8 years and its expected residual value was Rs.24,000. The asset is depreciated by the straight-line method. The financial year is from 1 January to 31 December.
- The asset was sold on 1 September Year 4 for Rs.163,000. Disposal costs were Rs.1,000.
- It is the company policy to charge a proportionate amount of depreciation in the year of acquisition and in the year of disposal, in accordance with the number of months for which the asset was held.
- What was the gain or loss on disposal?
- Rs. _____
- Q. 39.** A change in depreciation method is a?
- (a) Change in accounting policy
 - (b) Change in accounting estimate
 - (c) Change in accounting method
 - (d) Change in accounting standard
- Q. 40** When an asset is sold or disposed of, where is the gain or loss recognised?
- (a) Asset disposal account
 - (b) Profit and loss
 - (c) Revaluation reserve
 - (d) Depreciation
- Q. 41** How often should the useful life of an asset be reviewed?
- (a) Every six months
 - (b) As and when the market value will significantly change
 - (c) At least at each financial year end
 - (d) Never
- Q. 42** An entity acquired laptops in exchange of desktops which have carrying amount of Rs. 450,000 and fair value of Rs. 300,000 at the date of exchange. The list price of the laptops acquired is Rs. 600,000. The entity is also required to pay cash of Rs. 275,000 in this exchange transaction.
- The laptops should be initially recognized at:
- (a) Rs. 300,000
 - (b) Rs. 575,000
 - (c) Rs. 450,000
 - (d) Rs. 600,000
- Q. 43** During the year 2019, an entity purchased a machine for Rs. 20 million to be used for 6 years. Which of the following would represent residual value of this machine in 2019?
- (a) Rs. 15 million can be currently obtained from disposal of the machine in present condition
 - (b) Rs. 4 million can be currently obtained from disposal of a 6 year old similar machine
 - (c) Rs. 18 million can be obtained in 2025 from disposal of the machine in present condition
 - (d) Rs. 7 million can be obtained in 2025 from disposal of a 6 year old similar machine

ICAP MULTIPLE CHOICE QUESTIONS (MCQs) SOLUTIONS

A.1 (d)

Current value	Rs.
Carrying amount	500,000
$(100,000 - (100,000 \times 2\% \times 15 \text{ yrs}))$	
Revaluation gain	(70,000)
(a)	<u>430,000</u>

A.2

Current value	Building A	Building B
Carrying amount	400,000	250,000
Revaluation gain/(loss)	(170,000)	(330,000)
	<u>230,000</u>	<u>(80,000)</u>

The gain on Building A will be credited to other comprehensive income and the revaluation surplus.

The loss on Building B will be debited to the statement of profit or loss expenses because we do not have a balance on the revaluation surplus in respect of building B to offset the loss.

We make an overall debit to non-current assets of Rs.230,000 – Rs.80,000 = Rs.150,000

A.3 (a)

Cost 1 July 2013	Land	Buildings	Total
Building depreciation	Rs.	Rs.m	Rs.m
Rs. 5 million/50 years x 2 years	1.00	5.00	6.00
Carrying amount 30 June 2015		(0.2)	(0.2)
Revaluation gain	1.00	4.80	5.80
Revalued amount	0.24	1.96	1.20
Building depreciation	1.24	5.76	7.00
Rs. 5.76m/48 years x 2 years		(0.24)	(0.24)
Carrying amount 30 June 2017	1.24	5.52	6.76
Disposal proceeds			6.80
Gain on disposal			<u>0.04</u>

The gain on disposal is Rs. 40,000. The Rs. 1.2 million balance on the revaluation reserve is transferred from the revaluation reserve to another reserve account (probably retained earnings) but is not reported through the statement of profit or loss for the year.

A.4

(a) IAS 16 (para 31) states that when the revaluation model is used, revaluations should be made with sufficient regularity to ensure that the carrying value of the assets remains close to fair value. IAS 16 also states (para 36) that, if one item in a class of assets is revalued, all the assets in that class must be revalued.

A.5

(c) Six months' depreciation to the date of the revaluation will be Rs.300,000 $(12,000/20 \text{ years} \times 6/12)$. Six months' depreciation from the date of revaluation to 31 March 2015 would be Rs.400,000 $(10,800/13.5 \text{ years remaining life} \times 6/12)$. Total depreciation is Rs.700,000.

A.6 (c)

Building a/c

Particulars	Rs.	Particulars	Rs.
b/d	10,000,000	Acc. Dep	500,000
Surplus	2,500,000	c/d	12,000,000
	<u>12,500,000</u>		<u>12,500,000</u>

Building net debited by Rs.2,000,000 (2,500,000 – 500,000)

A.7 (a) Total loss Rs.13 million, Rs.10 will be charged to revaluation surplus and remaining to profit or loss.

A.8 (b) Depreciation $(20 - 8) / 30$ years = Rs.0.4 million

Carrying amount Rs.20 million less 0.4 million = Rs.19.6 million

A.9 (c) Depreciation Now $(20 - 8) / 30$ years = Rs.0.4 millionDepreciation Cost $(10 - 2) / 40$ years = Rs.0.2 million

Revaluation surplus

= Land Rs.6 million + Building Rs.4 million - incremental depreciation 0.2 million = Rs.9.8 million

A.10 (d)

A.11 (a) On disposal of a revalued asset, the full balance of surplus on revaluation is transferred to retained earnings.

A.12 (b)

Asset

Particulars	Rs.	Particulars	Rs.
b/d	216,000	Acc. Dep (216,000-145,000)	71,000
Surplus (bal)	146,000	c/d	291,000
	<u>362,000</u>		<u>362,000</u>

Net amount debited to asset = Rs.146,000 - Rs.71,000 = Rs.75,000

A.13 (d)

A.14 (d)

A.15 (b)

A.16 Rs.3,087 (625+2,462)

Date		Land Rs.	Rev. surplus Rs.	P/L Rs.
1.1.15	Cost	30,000		
31.2.15&16	Depreciation $(30,000/12 \times 2)$	<u>(5,000)</u>		
31.12.16	Carrying amount	25,000		
31.3.17	Depreciation $(25,000/10 \times 3/12)$	<u>(625)</u>		
31.3.17	Carrying amount	24,375		
31.3.17	Revaluation surplus	7625	7,625	
31.3.17	Revalued Amount	<u>32,000</u>	7,625	
31.12.17	Depreciation $(32,000/9.75) \times 9/12$	<u>(2,462)</u>		
31.12.17	Carrying amount	<u>29,538</u>		

A.17 Rs.75,000

Incremental depreciation = depreciation on revalued amount – depreciation at cost

Dep. before revaluation = Rs.7,500,000 / 20 years = Rs.375,000

Dep. after revaluation = Rs.7,650,000 / 17 years = Rs.450,000

Incremental depreciation = Rs.75,000

A.18 Rs.562,500

Depreciation = Rs.4,500,000/8 = Rs.562,500

A.19 Rs.500,000

Revaluation surplus = Rs.4,000,000 – 4,500,000 = Rs.500,000

A.20 Rs.62,500

Incremental depreciation = Dep on revalued amount – Dep on cost

= (4,500,000/8) – (5,000,000/10)

= Rs. 562,500 – 500,000 = 62,500

Alternatively, Rs.500,000 surplus / 8 years = Rs.62,500

A.21. (a)

A.22. (c)

A.23. (b)

A.24. (c)

A.25. (d)

A.26. (d)

A.27. (c)

A.28. (d)

A.29. (d)

A.30. (c)

A.31. (b)

A.32. (a)

A.33. (d) Charge to profit or loss account

A.34. (b) A plot of land held for resale

A.35. (d) Fair value of asset given up + cash paid
= Rs. 750,000 + 55,000 = Rs. 805,000A.36. (c) Rs. 2,000,000 x (0.75)⁵ = 474,609

A.37. Rs. 8,000 gain

Net sale proceeds = Rs. 68,000

Accumulated depreciation = Rs. 80,000 / 5 years x 2.25 years = Rs. 36,000 Carrying amount =

Rs. 96,000 – 36,000 = Rs. 60,000

Gain on disposal = Rs. 68,000 – 60,000 = Rs. 8,000

A.38. Rs. 24,000 gain

Net sale proceeds = Rs. 163,000 – 1,000 = Rs. 162,000

Accumulated depreciation**Rs.**

Depreciation year 1

14,000

(Rs. 216,000 – 24,000) / 8 years = 24,000 x 7/12

24,000

Depreciation year 2 Rs. 24,000 x 12/12

24,000

Depreciation year 3 Rs. 24,000 x 12/12

16,000

Depreciation year 4 Rs. 24,000 x 8/12

78,000

Carrying amount = Rs. 216,000 – 78,000 = Rs. 138,000 Gain on disposal = Rs. 162,000 – 138,000 = Rs. 24,000

A.39. (b) Change in depreciation method is change in accounting estimate

A.40. (b) Gain or loss is recognised in profit or loss

A.41. (c) Useful life is reviewed annually at each financial year end, at least.

A.42. (b) Rs. 575,000

A.43. (b) Rs. 4 million can be currently obtained from disposal of 6 year old similar machine

CHAPTER # 02

CORRECTION

OF ERRORS

CORRECTION OF ERRORS

As errors arising in books need to be located and corrected immediately as they are detected. No rigid rules can be laid down as to how the correcting entries should be passed, but the main object must necessarily be to rectify the wrong position. Experience has shown that the difference in the Trial Balance ordinarily arises from any one or more of the following reasons, and it is this direction, therefore, that efforts for the search for errors should be made:-

1. Error in bringing forward proper balances from the previous year's books.
2. Errors in additions and carrying forwards.
3. Omission of Cash Balance or Bank Balance from the Trial Balance.
4. Bank Overdraft being placed in the wrong column.
5. Items of the nature of Bad Debt, Return of Goods, Allowance or Discount wrongly passed
6. Omission of any balance from the Ledger.
7. Posting of entries to wrong side of accounts.

LO1: ERRORS NOT AFFECTING THE AGREEMENT OF TRIAL BALANCE / ERRORS IN DOUBLE ENTRY ACCOUNTING SYSTEM

These are the errors that cannot be traced through trial balance because both sides of trial remain balanced after this error.

1. Error of transposition
2. Error of omission
3. Error of commission
4. Error of principle
5. Error of original entry
6. Compensating error
1. Error of transposition (transposition errors)

This involves getting the digits in a number the wrong way round, for example recording Rs.9,700 as Rs.7,900.

Sometimes the error will be made in both the debit and the credit entries in the ledger. For example a purchase invoice might be recorded as Rs.1,650 instead of Rs.1,560 in both the purchases account and the payables ledger control account. The trial balance will not reveal this sort of error.

Sometimes the error of transposition will be made in one account but not the other. For example, a payment of Rs.1,980 from a customer might be recorded correctly in the cash book but posted incorrectly as Rs.1,890 in the receivables ledger control account.

2. Error of Omission
Failing to record a transaction at all.

Example

Sold goods to Mr. Umer for Rs. 3,700 on credit and the accountant omitted to record the transaction.

Rectifying		Original		Wrong	
Debtor A/C	3,700	Debtor A/C	3,700	X	
Sale A/C	3,700	Sale A/C	3,700		X

3. Error of Commission
In this error effect is given to wrong accounting head relating to correct main head.

Example

Rent paid of Rs. 5,700 had wrongly been debited to repairs account.

Rectifying	Original	Wrong
Rent expense A/C 5,700	Rent exp. A/C 5,700	Repair exp. A/C 5,700
Repair expense A/C 5,700	Cash A/C 5,700	Cash A/C 5,700

4. **Error of Principle**

In this error effect is given to wrong main head.

Example

Rent paid of Rs. 1,700 was wrongly debited to furniture account.

Rectifying	Original	Wrong
Rent expense A/C 1,700	Rent exp. A/C 1,700	Furniture A/C 1,700
Furniture A/C 1,700	Cash A/C 1,700	Cash A/C 1,700

5. **Error of original entry**

In this error both Dr. and Cr. effect is given with the same wrong amount.

Example

Credit purchase of Rs. 779 was recorded in both accounts as 797.

Rectifying	Original	Wrong
Creditor A/C 18	Purchase A/C 779	Purchase A/C 797
Purchase A/C 18	Creditor A/C 779	Creditor A/C 797

6. **Compensating error**

The error in which accounting effect of one error cancels the accounting effect of another error.

LO2: ERRORS AFFECTING THE AGREEMENT OF TRIAL BALANCE (SUSPENSE ACCOUNT)

When both sides of the trial balance do not agree with each other there will be a difference in the trial balance either on a debit side or credit side. As by looking into trial balance it is not clear which accounting head is wrongly treated therefore difference in trial balance is termed as suspense account

Situations

If debit side of the trial exceeds the credit side

If credit side of the trial exceeds the debit side

Nature of suspense account

credit nature

debit nature

Suspense account will never exist in balance sheet issue to the owner.

In rectifying entry, the balance of suspense account will always be equal to difference between the Dr. & Cr of wrong entry.

Examples of error which have an effect on the suspense account

1. An entry already passed in the books whose debit and credit side do not agree.
2. Casting error in an account
3. Casting error in day book
4. Closing balance of an account is not put in the trial balance
5. Total of one page in day book or T-account is wrongly carried forward to next page
6. Total of day book not posted to ledger
7. Opening balance of an account is wrongly written in T account or omitted from T-account

Effect of rectifying entry on depreciation

If in rectifying entry fixed asset is increasing we will increase the depreciation and vice-versa. While passing entry for depreciation you must take care for two things:

1. The number of months to be used in the entry should start from date of error till year end.
2. If method used is written down value, fixed asset increase/decrease net of accumulated depreciation will be used for calculating depreciation.

Effect of rectifying entry on provision for doubtful debt a/c

If in rectifying entry debtor is increasing we will increase the provision and vice-versa.

Example-1

Following trial balance is extracted from the books of Mr. Yasir for year ended June 30, 2011:

Trial Balance as on June 30, 2011		
	Rupees	
	Dr.	Cr.
Land and building-cost	100,000	
Plant – cost	120,000	
Stock in trade	25,000	-
Debtors	15,000	-
Bank	82,500	-
Creditors	-	17,000
Mr. Yasir's Capital Account	-	194,000
Total	342,500	211,000

A credit purchase of Rs. 131,500 has correctly been posted to purchase account but has not been posted to the credit of creditor account

Required:

- Prepare journal entry to rectify the error.
- Prepare Suspense account
- Prepare trial balance.

Answer-1

Rectifying		Original		Wrong	
a)	Suspense 131,500	Purchases 131,500		Purchases 131,500	
	Creditor 131,500	Creditor 131,500			

b)

Dr.	Suspense account			Cr.
Creditor	131,500	Difference in trial		131,500

c)

Trial Balance as on June 30, 2011

	Dr.	Cr.
Land and building-cost	100,000	
Plant – cost	120,000	
Stock in trade	25,000	
Debtors	15,000	
Bank	82,500	
Creditors		(17,000 + 131,500)
Mr. Yasir's Capital Account		148,500
Total	342,500	342,500

Example-2

Following trial balance is extracted from the books of Mr. Asif for year ended June 30, 2011:

Trial Balance as on June 30, 2011		
	Rupees	
	Dr.	Cr.
Land and building-cost	100,000	-
Plant – cost	120,000	-
Stock in trade	25,000	-
Debtors	15,000	-
Bank	82,500	-
Creditors	-	17,000
Mr. Asif's Capital Account	-	194,000
Administration Expenses	5000	-
Sales	-	216,000
Purchases Return	-	10,957
Purchases	70,000	-
Sales Return	15,000	-
	432,500	437,957

- (i) A credit purchase of Rs. 10,000 has correctly been posted to purchase account but has not been posted to the credit of creditor account.
- (ii) Sale account has been under casted by Rs. 3,000.
- (iii) Purchase day book has been under casted by Rs. 4,500.
- (iv) Building account c/d of Rs. 14,000 has not been put in trial.
- (v) Sale return day book total of page 6 of Rs. 12 has been c/f to next page as Rs. 15.
- (vi) Total of 1 page of purchase return day book is not posted to ledger amounting to Rs.40.

Required:

Prepare journal entries to rectify the error. Also prepare suspense account.

Answer-2

Rectifying		Original		Wrong	
i)	Suspense 10,000 Creditor 10,000	Purchases 10,000 Creditors 10,000		Purchases 10,000 -	-
ii)	Suspense 3,000 Sales 3,000				
iii)	Purchases 4,500 Suspense 4,500				
iv)	Building a/c 14,000 Suspense 14,000				
v)	Suspense 3 Sale return 3				
vi)	Suspense 40 Purchase return a/c 40				

Dr.		Suspense account		Cr.	
Difference in trial	5,457	Purchases	4,500		
Creditor	10,000	Building	14,000		
Sales	3,000				
Sale return	3				
Purchase return	40				

Example-3

Following trial balance is extracted from the books of Mr. Asif for year ended June 30, 2011. What will be corrected profit, if profit before the correction of the following errors was Rs.600,000:

Pass the rectifying entries.

- (i) Credit sales of Rs. 1,000 have not been recorded in debtor account.
- (ii) Goods sold on credit amounting to Rs. 12,300 have been recorded in debtor account as Rs. 13,200.
- (iii) Purchases of Rs. 300 were recorded in creditor account as Rs. 250.
- (iv) Plant and machinery purchased for Rs. 3,000 is not debited to plant and machinery account.
- (v) Purchase of plant and machinery Rs. 3,200 is wrongly debited to repair account.
- (vi) Credit purchase of Rs. 2,000 is posted to debit of creditor account as Rs. 1,800.
- (vii) Credit sales amounting to Rs. 10,000 were being credited in debtor account.
- (viii) The total of purchase return day book amounting to Rs. 16,160 had not been posted to the ledger.
- (ix) A credit sale of Rs. 12,000 is correctly entered in day book but from there it has wrongly been credited in debtor account.
- (x) A purchase of goods from M on credit amounting to Rs 15,000 was wrongly passed through the sales book.
- (xi) One of the stock sheet had been overcast by Rs.1,000
- (xii) Rate of depreciation for plant and machinery is 10% under straight line method.
- (xiii) Rate of provision for doubtful debt is 5%.

Answer-3

	Rectifying		Original		Wrong	
(i)	Debtor	1,000	Debtor	1,000		
	Suspense	1,000	Sales	1,000	Sales	1,000
(ii)	Suspense	900	Debtor	12,300	Debtor	13,200
	Debtor	900	Sales	12,300	Sales	12,300
(iii)	Suspense	50	Purchases	300	Purchases	300
	Creditor	50	Creditor	300	Creditor	250
(iv)	Plant & Machinery	3,000	Plant & Machinery	3,000		
	Suspense	3,000	Cash	3,000	Cash	3,000
(v)	Plant & Machinery	3,200	Plant & Machinery	3,200	Repair a/c	3,200
	Repair a/c	3,200	Cash	3,200	Cash	3,200
(vi)	Suspense	3,800	Purchases	2,000	Purchases	2,000
	Creditors	3,800	Creditors	2,000	Creditors	1,800
(vii)	Debtor	20,000	Debtor	10,000	Debtor a/c	10,000
	Suspense	20,000	Sales	10,000	Sales	10,000
(viii)	Suspense	16,160				
	Purchase return	16,160				
(ix)	Debtor	24,000	Debtor	12,000	Debtor a/c	12,000
	Suspense	24,000	Sales	12,000	Sales	12,000
(x)	Sales	15,000	Purchases	15,000	Debtor	15,000
	Purchases	15,000	Creditor	15,000	Sale	15,000
	Debtor	15,000				
	Creditor	15,000				
(xi)	Trading a/c	1,000				
	Stock	1,000				
(xii)	Deprecation Exp.	620				
	Accumulated dep.	620				
	(3,000 + 3,200) x 10%					
(xiii)	P/L	1,455				
	Provision for D.D.	1,455				
	(1,000 - 900 + 20,000 + 24,000 - 15,000) x 5%					

Statement showing adjustments in profits

Un adjusted Profit

Less:

- (x) Sales account
 (x) Purchase account
 (xi) Trading a/c
 (xii) Depreciation expense
 (xiii) P/L

Add:

- (v) Repair account
 (viii) Purchase return

Adjusted profit figure

Rectification Adjustments in depreciation

Following is a list of some common errors made in accounting of fixed assets:

- i) Advance paid for purchase of asset is debited to asset account.

Revenue expenditure is treated as capital expenditure and vice-versa.

Example-4

Following errors were identified by the auditors for the year ended December 31, 2010.

- (i) Advance paid Rs. 50,000 on 1.08.2010 for purchase of machinery to be delivered in 2011 is debited to machinery a/c.

- (ii) Repair costing Rs. 10,000 on 1.4.2010 have been debited to machinery a/c.

Rate of Depreciation is 10% straight line.

Required:

Prepare the journal entries to correct the above errors.

Answer-4

Rectifying		Original		Wrong	
Advance -Machinery	50,000	Advance -Machinery	50,000	Machinery	50,000
Machinery	50,000	Cash	50,000	Cash	50,000
Repair expense	10,000	Repair expense	10,000	Machinery	10,000
Machinery	10,000	Cash	10,000	Cash	10,000
Acc. Dep (W-1)	2,833				
Dep exp.	2,833				

(W-1) Adjustment for depreciationAdj. (i) $(50,000 \times 10\% \times 5/12)$ Adj.(ii) $(10,000 \times 10\% \times 9/12)$

Total excess depreciation to be reversed

(Excess)/
 Less
 (2,083)
 (750)
 (2,833)

Example-5

Following errors were identified by the auditors for the year ended December 31, 2010.

- (i) Advance paid for purchase of machinery to be delivered on 31.3.2011 is debited to machinery account on 1.11.2010. Amount is Rs. 30,000.
- (ii) Installation cost paid for machine on November 1, 2010 amounting to Rs. 50,000 is debited to repair account.

Rate of Depreciation is 10% WDV.

Required:

Prepare the journal entries to correct the above errors.

Answer-5

Rectifying		Original		Wrong	
Advance-Machinery	30,000	Advance -Machinery	30,000	Machinery	30,000
Machinery	30,000	Cash	30,000	Cash	30,000
Machinery	50,000	Machinery	50,000	Repair	50,000
Repair	50,000	Cash	50,000	Cash	50,000
Dep. exp. (W-1)	333				
Acc. Dep.	333				

(W-1) Adjustment for depreciation

	(Excess)/ Less
Adj. (i)	(500)
Adj.(ii)	(30,000 × 10% × 2/12)
Total excess depreciation to be reversed	(50,000 × 10%) × 2/12
	<u>833</u>
	<u>333</u>

Example-6

Following account balances are appearing in the books of Amjad as on:

	Cost 31.12.2010	Accumulated Depreciation 31.12.2010
Machinery	600,000	400,000

Following errors were identified by the auditors for the year ended December 31, 2010.

- Machinery costing Rs. 50,000 purchased on 1.4.2006 was sold on 30.9.2010 for Rs.8,000 and sale proceeds were credited to machinery A/C.
- Machine purchased on 1.1.2008 having cost of Rs. 10,000 is sold on 30.6.2010 at a gain of Rs. 3,000. The sale proceeds are credited to sales a/c.

Rate of depreciation for 10% straight line.

Required:

- Prepare the journal entries to correct the above errors.
- Prepare adjusted Machinery A/C and accumulated depreciation a/c.

Solution

a)

Rectifying		Original		Wrong	
Acc. Dep.	22,500	Acc. Dep.	22,500	Cash	8,000
P/L	19,500	Cash	8,000	Machinery	8,000
Machinery	42,000	P/L (Bal.)	19,500		
		Machinery	50,000		
		(50,000 × 10% × 4.5)			
Acc. Dep.	2,500	Acc. Dep. (W-3.1)	2,500	Cash	10,500
Sale	10,500	Cash (bal.)	10,500	Sale	10,500
P/L	3,000	P/L	3,000		
Machinery	10,000	Machinery	10,000		
		(10,000 × 10% × 2.5)			
Acc.	1,550				
Depreciation(W-1)					
Depreciation exp.	1,550				

(W-1) Adjustment for depreciation

		(Excess)/ Less
Adj.(i)	$(42,000 \times 10\% \times 3/12)$	(1,050)
Adj.(ii)	$(10,000 \times 10\% \times 6/12)$	(500)
		<u>(1,550)</u>

b)	Dr.	Machinery a/c	Cr.
	Unadjusted closing balance	600,000	Adj. (i) 42,000
			Adj. (ii) 10,000
			c/d (bal.) <u>548,000</u>

Dr.	Accumulated depreciation a/c	Cr.
Depreciation	1,550	Unadjusted closing balance 400,000
Adj. (i)	22,500	
Adj. (ii)	2,500	
c/d (bal.)	<u>373,450</u>	

Example--7

Following account balances are appearing in the books of Amjad as on:

	Cost 31.12.2010	Accumulated Depreciation 31.12.2010
Machinery	700,000	360,000

Following errors were identified by the auditors for the year ended December 31, 2010.

- Advance paid Rs. 50,000 on 1.08.2010 for purchase of machinery to be delivered in 2011 is debited to machinery a/c.
- Machinery costing Rs. 80,000 purchased on 1.1.2009 was sold on 30.9.2010 for Rs. 50,000 and sale proceeds were credited to machinery A/C.

Rate of Depreciation for 10% WDV.

Required:

- Prepare the journal entries to correct the above errors.
- Prepare adjusted Machinery A/C and accumulated depreciation a/c

Solution

(a)

	Rectifying	Original	Wrong
a	Advance-Machinery 50,000 Machinery 50,000	Advance -Machinery 50,000 Cash 50,000	Machinery A/C 50,000 Cash 50,000
b	Acc. Dep. 13,400 P/L 16,600 Machinery 30,000	Acc. Dep. (W-1) 13,400 Cash 50,000 P/L (Bal.) 16,600 Machinery 80,000	Cash 50,000 Machinery 50,000
c	Acc. Dep (W-2) 2,758 Dep exp. 2,758		

WORKINGS**(W-1) Accumulated Depreciation of Disposal**

Cost (1.01.2009)		80,000
Depreciation (2009)	$(80,000 \times 10\%)$	(8,000)
WDV (31.12.2009)		72,000
Depreciation (30.9.2010)	$(72,000 \times 10\% \times 9/12)$	(5,400)
WDV on (30.9.2010)		66,600
Accumulated depreciation on disposal $(80,000 - 66,600)$		13,400

(W-2) Adjustment for depreciation

Adj. (i)		(Excess)/
Adj. (ii)	$(50,000 \times 10\% \times 5/12)$	Less
Total excess depreciation to be reversed	(W-3)	(2,083)
		(675)
		(2,758)

(W-3) Accumulated depreciation

		Correct	Wrong	Excess
01-01-2009	Cost	30,000		
31-12-2009	Depreciation $(30,000 \times 10\%)$	(3,000)		
31-12-2009	WDV	27,000	27,000	
30-09-2010	Depreciation $(27,000 \times 10\% \times 9/12) : (27,000 \times 10\%)$	(2,025)	(2,700)	(675)
30-09-2010	WDV	24,975	24,300	

b)	Dr.	Machinery a/c			
		Unadjusted closing balance	700,000		
				Adj. (i)	Cr.
				Adj. (ii)	50,000
				c/d (bal.)	30,000
					620,000
	Dr.	Accumulated depreciation a/c			
		Adj. (i)	13,400		
		Depreciation (W-2)	2,758		
		c/d (bal.)	343,842		
				Unadjusted closing balance	Cr.
					360,000

Example-8

Following account balances are appearing in the books of Amjad as on:

	Cost	Accumulated Depreciation
Machinery	31.12.2010	31.12.2010
	1,100,000	700,000

Following errors were identified by the auditors for the year ended December 31, 2010.

- Advance paid for purchase of machinery to be delivered on 31.3.2011 is debited to machinery account on 1.11.2010. Amount is Rs. 30,000.
- Machinery costing Rs. 80,000 purchased on 1.4.2009 was sold on 30.9.2010 for Rs.33,000 and sale proceeds were credited to machinery A/C.
- Machine purchased on 1.7.2008 having book value of Rs. 25,000 on 31.5.2010 is sold at a gain of Rs. 3,000. The sale proceeds are credited to sales a/c.
- Installation cost paid for machine on November 1, 2010 amounting to Rs. 50,000 is debited to repair account.

Rate of Depreciation for 10% WDV.

Required:

- Prepare the journal entries to correct the above errors.
- Prepare adjusted Machinery A/C and accumulated depreciation a/c.

Solution

a)

	Rectifying	Original	Wrong
i	Adv.-Machinery 30,000 Machinery 30,000	Advance -Machinery 30,000 Cash 30,000	Machinery 30,000 Cash 30,000
ii	Acc. Dep. 11,550 P/L 35,450 Machinery 47,000	Acc. Dep. (W-1) 11,550 Cash 33,000 P/L (Bal.) 35,450 Machinery 80,000	Cash 33,000 Machinery 33,000
iii	Acc. Dep. 5,511 Sale 28,000 P/L 3,000 Machinery 30,511	Acc. Dep. (W-2.1) 5,511 Cash (bal.) 28,000 P/L 3,000 Machinery (W-2) 30,511	Cash 28,000 Sale 28,000
iv	Machinery 50,000 Repair 50,000	Machinery 50,000 Cash 50,000	Repair 50,000 Cash 50,000
	Acc. Dep. 2,246 Dep. (W-3) 2,246		

WORKINGS**(W-1) Accumulated Depreciation of Disposal**

Cost (1.04.2009)		80,000
Depreciation (2009)	$(80,000 \times 10\% \times 9/12)$	(6,000)
WDV (31.12.2009)		74,000
Depreciation (30.9.2010)	$(74,000 \times 10\% \times 9/12)$	(5,550)
WDV on (30.9.2010)		68,450
Accumulated depreciation on disposal	$(80,000 - 68,450)$	11,550

(W-2) Cost of items having book value Rs. 25,000

Let the cost be	(1.7.2008)	100
Depreciation-2008	$(100 \times 10\% \times 6/12)$	(5)
Book value on 31.12.2008		95
Depreciation-2009	$(95 \times 10\%)$	(9.50)
Book value on 31.12.2009		85.5
Depreciation-2010	$(85.5 \times 10\% \times 5/12)$	(3.5625)
Book value on 31.5.2010		81.9375
If book value is 81.9375 then it can be grossed up to arrive at cost.		30,511

Cost $(25,000/81.9375 \times 100)$

(W-2.1) Accumulated Depreciation of Disposal

Accumulated depreciation on disposal $(30,511 - 25,000)$

(W-3) Adjustment for depreciation

Adj. (i)	$(30,000 \times 10\% \times 2/12)$	(Excess)
Adj. (ii)	(W-4)	Less
Adj. (iii)	(W-5)	(500)
Adj. (iv)	$(50,000 \times 10\% \times 2/12)$	(1,087)
Total excess depreciation to be reversed		(1,492)
		833
		(2,246)

CHAPTER-2

CORRECTION OF ERRORS

(W-4) Accumulated depreciation

01-04-2009	Cost
31-12-2009	Depreciation $(47,000 \times 10\% \times 9/12)$
31-12-2009	WDV
30-09-2010	Depreciation $(43,475 \times 10\% \times 9/12): (43,475 \times 10\%)$
30-09-2010	WDV

Correct	Wrong	Excess
47,000		
(3,525)		
43,475	43,475	
(3,261)	(4,348)	(1,087)
40,214	39,127	

(W-5) Accumulated depreciation

01-07-2008	Cost
31-12-2008	Depreciation $(30,511 \times 10\% \times 6/12)$
31-12-2008	WDV
31-12-2009	Depreciation $(28,985.45 \times 10\%)$
31-12-2009	WDV
31-05-2010	Depreciation $(26,087 \times 10\% \times 5/12): (26,087 \times 10\%)$
31-05-2010	WDV

Correct	Wrong	Excess
30,511		
(1526)		
28,986		
(2,899)		
26,087	26,087	
(1,117)	(2,609)	(1,492)
24,970	23,478	

Dr.		Machinery a/c	Cr.
b)	Unadjusted closing balance	1,100,000	30,000
	Adj. (i)		47,000
	Adj. (ii)		30,511
	Adj. (iii)		1,042,489
	Adj. (iv)	50,000	c/d (bal.)

Dr.		Accumulated depreciation a/c	Cr.
	Unadjusted closing balance	11,550	700,000
	Adj. (ii)	5,511	
	Adj. (iii)	2,246	
	Depreciation (W-4)	680,693	
	c/d (bal.)		

LO3: EFFECT OF ERRORS ON PROFIT

Description

If revenue and expense items are credited in rectifying entry
If revenue and expense items are debited in rectifying entry

Effect on profit

Increase
Decrease

LO4: SYSTEM OF ACCOUNTING USED IN RECTIFICATION OF ERRORS TOPIC

In the topic of rectification of errors you should assume that no control accounts are maintained unless it is expressly mentioned in the question.

Following steps are performed if control accounts are not maintained:

1. Credit sale is firstly recorded in sales day book.
2. Secondly, individual debtor account is updated with this figure.
3. Thirdly at the end of month the total of sales day book is posted to the credit of sales account.

It means:

Transaction

Casting error in day book
Invoice omitted from sales day book
Invoice recorded in sales day book with wrong amount

Will effect

Sale account
Sale account and debtor account
Sale account and debtor account

Note: Same rules apply for:

- Purchase day book
- Purchase return day book
- Sale return day book

Exam Tip

Whenever in question the word day book is used you must use this system (LO4).

Some important things

- Goods purchased should be recorded when received.
- Goods sold should be recorded when dispatched.

PRACTICE QUESTIONS**Question-1**

Amir could not agree the Trial Balance. He transferred to the Suspense Account amount of Rs.296 being excess of the debit side total. The following errors were subsequently discovered:

- (i) Sales Book was overcast by Rs.300;
- (ii) Purchase of furniture for Rs.615 passed through Purchase Book;
- (iii) An amount of Rs.55 received from Sheldon was posted to his account as Rs.550;
- (iv) Purchase Return Book total was carried forward as Rs.221 instead of Rs.112;
- (v) A cash sale of Rs.1,235 duly entered in the Cash Book but posted to Sales Account as Rs.235; and
- (vi) Rest of the difference was due to incorrect total in the Salaries Account in the Ledger.

Required:

Give journal entries to rectify the above and prepare Suspense Account.

Question-2

You have extracted a trial balance and drawn up accounts for the year ended 31 December 20X7. There was a shortage of Rs. 78 on the credit side of the trial balance, a suspense account being opened for that amount.

During 20X8 the following errors made in 20X7 were found:

- (i) The credit sale has been recorded excess by Rs. 125 in both accounts.
- (ii) Purchases day book had been overcast by Rs. 10.
- (iii) A private purchase of Rs. 140 had been included in the business purchases.
- (iv) Bank charges Rs. 22 entered in the cash book have not been posted to the bank charges account.
- (v) A sale of goods to K Lamb Rs. 230 was correctly entered in the sales book but entered in the personal account as Rs. 320.

Required:

- (a) Show the requisite journal entries to correct the errors.
- (b) Write up the suspense account showing the correction of the errors.
- (c) The net profit originally calculated for 20X7 was Rs. 28,400. Show your calculation of the correct figure.

Question-3

Syed Aamir Ali's trial balance failed to agree on 31.12.19 and he entered the difference in a Suspense Account. On examination of the books the following errors were revealed:

- (a) Goods sold on credit to A. Mann, valued at Rs. 400, had been credited to his account.
- (b) A photocopier, purchased for Rs. 1,800, had been debited to the Purchases Account.
- (c) Syed Aamir Ali had received a credit note for Rs. 550 from a creditor, T. Willis, for goods returned. No entry had been made in the books.
- (d) A payment for rates, Rs. 950, was entered on the credit side of the Rates Account as Rs. 590.
- (e) Bank charges of Rs. 600 were entered in the cash book but not posted to the ledger.
- (f) R. Owens, a debtor, was declared bankrupt and was only able to pay 25% in the rupee on a debt of Rs. 1,000. No entry had been made in the books in respect of the bad debt.

The correcting of the above errors enabled the books to be balanced.

Required:

- a Journalise the necessary corrections.
- b Show the Suspense Account.

Question-4

The trial balance of Tom Moran, a car dealer, failed to agree on 31.12.19 and he entered the difference in a Suspense Account. On examination of the books the following errors were revealed:

- (a) A car purchased for Rs. 6,000 was debited to the Equipment Account.
- (b) A credit note for Rs. 178 received from a creditor, M. Walsh, had been debited in Walsh's account as Rs. 196.
- (c) A payment of Rs. 190 for repairs to machinery had been entered in the Plant and Machinery Account.
- (d) Discount received, Rs. 700, had been posted to the incorrect side of the Discount Account.
- (e) Capital introduced in cash during the year by the owner, Rs. 2,000, had been entered correctly in the Capital Account but the double entry had not been completed.
- (f) Cash received, Rs. 400, from a debtor, R. Spade, had been entered correctly in Spade's account but no entry had been made in the cash book.

Required:

- a. Journalise the necessary corrections.
- b. Show the Suspense Account.

Question-5

Ali Abbas's trial balance failed to agree on 31.3.19 and he entered the difference, a credit balance of Rs.4,030, in a Suspense Account. On examination of the books the following errors were revealed:

- (a) Interest received, Rs. 840, had been entered on the incorrect side of the Interest Account.
- (b) James Taylor, a debtor, was declared bankrupt and had made a full and final payment of 20% in the rupee in respect of the original debt of Rs. 1,500. No entry had been made in the books in respect of the bad debt.
- (c) Shop equipment purchased costing Rs. 2,500 has been debited with Rs. 7,500 in correct account.
- (d) A payment of Rs. 790 to a creditor, R. Poole, had been credited to his account as Rs. 970.
- (e) The total of the sales book, Rs. 18,990, had been posted to the Sales Account as Rs. 19 880.
- (f) A car, costing Rs. 30,000, purchased by Ali Abbas for his wife, had been posted to the Motors Expenses Account.

Required:

- a. Journalise the necessary corrections.
- b. Show the Suspense Account.

Question-6

The trial balance of a firm is out. The following errors were found subsequently, to have been committed. Pass journal entries to correct them, and ascertain the difference in the Trial Balance.

- (a) An amount of Rs. 100 was received from D. Das on 31st December, 1998, but had been entered in the Cash Book on 3rd January, 1999.
- (b) The Returns Inwards Books for December has been cast Rs. 100 short.
- (c) The purchase of an office table costing Rs. 300 had been passed through the Purchase Day Book.
- (d) Rs. 375 paid for wages to workmen for making show cases had been charged to wages account.
- (e) A purchase of 671 had been posted to the debit of the creditor's account as Rs. 617. The creditor is P. Panna & Co.
- (f) A cheque for Rs. 200 received from P.C Joshi has been dishonoured on maturity and was passed to the debit of Allowance Account.
- (g) Goods amounting to Rs. 100 had been returned by a customer and were taken into stock but no entry in respect thereof was made in the books.

- (h) Rs. 2,000 paid for the purchase of a motor cycle for Mr. Dutt (a partner) had been charged to Miscellaneous Expenses Account.
- (i) A sale of Rs. 200 to Singhani & Co. was credited to their account.
- (j) A sale of Rs. 1,000 had been passed through the Purchase Day Book. The customer's account has, however, been correctly debited.
- (k) While carrying forward the total of the sales book from one page to the next, the amount was written as Rs. 176,658 instead of Rs. 167,568.

Question-7

- Mr. Fawwad owns a factory and closes his books on June 30. The trial balance prepared by him, contained a difference which he kept in a suspense account
1. A cheque of Rs. 10,800 was paid to a creditor who allowed 10% cash discount. The payment was correctly entered in the bank account but was posted to purchase account as Rs. 1,080 only. No other entry was made.
 2. Purchases of Rs. 4,500 were entered as sales in the Sales Day Book as Rs. 4,400.
 3. A sales return from 'R' Rs. 2,808 was wrongly passed through the sales book and from these wrongly posted to the credit of 'R' as Rs. 8,200.
 4. In the salaries account, a sub-total of Rs. 12,600 was carried over to the next page as Rs. 1,260 on the wrong side.
 5. The total of purchase return day book amounting to Rs. 16,160 had not been posted to the ledger.
 6. Purchase returns book was under-casted by Rs. 650.
 7. The sales account had been added short by Rs. 10,000.
 8. The opening balance of furniture account was brought forward as Rs. 18,300 instead of Rs. 13,800. Depreciation on furniture is provided at the rate of 10%.
 9. Equipment costing Rs. 200,000 with a carrying value of Rs. 60,000 was traded-in for a new equipment valuing Rs. 250,000 on July 02, 2006. A trade-in allowance of Rs. 45,000 was received on the equipment. However, while recording this transaction only the net payment to supplier was recorded as an addition to fixed assets. Depreciation was provided on the old as well as the new equipments at 10% on straight line basis.
 10. The following errors were observed in the valuation of year-end stocks and stores and spares:
 - o An amount of Rs. 152,700 was carried forward as Rs. 125,700 in the stock sheets.
 - o Stores and spares item code 35D was over casted by Rs. 37,000.
 11. The following cheques were issued on June 30, 2007;

Description	Cheque No.	Amount (Rs.)
Advance to an employee	128364	12,000
For goods supplied in May	128365	17,000

- Cheque No. 128364 was handed over to the employee on June 30 and is appearing as a reconciling item in the bank reconciliation statement related to June 2007.
 - Cheque No. 128365 was handed over to the supplier on July 1, 2007 and is not appearing on the bank reconciliation statement.
12. Debit balance on Suspense Account Rs. 9, was found to be due to a sale of Rs. 110 having debited to a customer's account as Rs. 101.

Required:

Pass rectifying Entries and prepare suspense account.

PRACTICE SOLUTIONS**Answer-1**

Rectifying			Original		Wrong	
(i)	Sales Ac	300			Sales A/c	300
	Suspense A/c	300			Purchases a/c	615
(ii)	Furniture A/c	615	Furniture A/c	615	Creditor a/c	615
	Creditor	615	Payable for fur.	615		
	Payable for fur.	615				
	Purchases A/c	615				
(iii)	Sheldon A/c	495	Cash a/c	55	Cash a/c	55
	Suspense a/c	495	Sheldon A/c	55	Sheldon A/c	55
(iv)	Purchases Return	109				
	Suspense A/c	109				
(v)	Suspense A/c	1,000	Cash a/c	1,235	Cash a/c	1,235
	Sales A/c	1,000	Sales a/c	1,235	Sales a/c	1,235
(vi)	Suspense A/c	200				
	Salaries A/c	200				

Dr.			Suspense Account			Cr.	
Date	Particulars	Rs	Date	Particulars	Rs		
	Sales A/c	1,000		Balance b/d			
	Salaries A/c (bal.)	200		Sales A/c			
				Sheldon			
				Purchases Return A/c			

Answer-2

(a)

Rectifying			Original		Wrong	
i)	Sale	125				
	Debtor	125				
ii)	Suspense	10				
	Purchase	10				
iii)	Drawings	140	Drawings	140	Purchase	140
	Purchase	140	Cash	140	Cash	140
iv)	Bank charges	22	Bank charges	22		
	Suspense	22	Bank	22	bank	22
v)	Suspense	90	Debtor-K Lamb	230	Debtor-K Lamb	320
	Debtor-K Lamb	90	Sale	230	Sale	230

(b)

Dr.			Suspense account			Cr.	
	Purchase	10		Difference in trial			
	Debtor-K Lamb	90		Bank charges			
(a)	Unadjusted profit						28,40
	Add:						
	Purchase	(10+140)					15
							15
	Less:						
	Sale						12
	Bank charges						2
							(147)
	Adjusted profit						28,40

Answer-3

Rectifying			Original		Wrong	
(a)	Debtor A Mann Suspense	800 800	Debtor A Mann Sale	400 400	Debtor A Mann Sale	400 400
(b)	Photocopier Purchases	1,800 1,800	Photocopier Cash	1,800 1,800	Purchases Cash	1,800 1,800
(c)	Creditor- T W Purchase return	550 550	Creditor- T W Purchase return	550 550	X	
(d)	Rates expense Suspense	1,540 1,540	Rates exp. Cash	950 950	Rates exp. Cash	590 950
(e)	Bank charges Suspense	600 600	Bank charges Bank	600 600	Bank	600
(f)	Bad debt Debtor	750 750	Bad debt Debtor	750 750	X	

Dr.	Suspense account		Cr.
Difference in trial (bal.)	2,940		
		Debtor A Mann	800
		Rates expense	1,540
		Bank charges	600

Answer -4

Rectifying			Original		Wrong	
(a)	Car Equipment	6,000 6,000	Car Cash	6,000 6,000	Equipment Cash	6,000 6,000
(b)	Suspense Creditor- M W	18 18	Creditor - M W Purchase return	178 178	Creditor - M W Purchase return	196 178
(c)	Repair expense Machinery a/c	190 190	Repair exp. Cash	190 190	Machinery a/c Cash	190 190
(d)	Suspense Discount rec.	1,400 1,400	Creditor Discount rec.	700 700	Creditor Discount rec.	700 700
(e)	Cash Suspense	2,000 2,000	Cash Capital	2,000 2,000	- Capital	- 2,000
(f)	Cash Suspense	400 400	Cash Debtor R S	400 400	- Debtor R S	- 400

Dr.	Suspense account		Cr.
Difference in trial (bal.)	982		
Creditor- M W	18	Cash	2,000
Discount received	1,400	Cash	400

Answer-5

Rectifying			Original		Wrong	
(a)	Suspense	1,680	Bank	840	Bank	840
	Interest income	1,680	Interest inc.	840	Interest income	840
(b)	Bad debt	1,200	Bad debt	1,200		
	Debtor	1,200	Debtor	1,200	X	
			(1,500 x 80%)			
(c)	Suspense	5,000	Shop equipment	2,500	Shop equipment	7,500
	Shop equipment	5,000	Cash	2,500	Cash	2,500
(d)	Creditor - R	1,760	Creditor - R	790	Creditor - R	970
	Suspense	1,760	Cash	790	Cash	790
(e)	Sales	890				
	Suspense	890				
(f)	Drawings	30,000	Drawings	30,000	Motor expense	30,000
	Motor expense	30,000	Cash	30,000	Cash	30,000

Dr.

Suspense account

Interest income
Shop equipment1,680
5,000Difference in trial
Creditor - R
SalesCr.
4,030
1,760
890**Answer-6**

Rectifying			Original		Wrong	
(a)	Cash	100	Cash	100	-	-
	Suspense	100	Debtor DD	100	Debtor DD	100
(b)	Sale return	100				
	Suspense	100				
(c)	Furniture	300	Furniture	300	Purchases	300
	Creditor	300	Payable	300	Creditor	300
	Payable	300				
	Purchases	300				
(d)	Furniture	375	Furniture	375	Wages	375
	Wages	375	Cash	375	Cash	375
(e)	Suspense	1,288	Purchase	671	Purchases	671
	Creditor PP	1,288	Creditor PP	671	Creditor PP	671
(f)	Debtor – PCJ	200	Debtor - PCJ	200	Allowances a/c	200
	Allowances a/c	200	Bank	200	Bank	200
(g)	Sale return	100	Sale return	100		
	Debtor	100	Debtor	100		
(h)	Drawings	2,000	Drawings	2,000	Miscellaneous exp.	2,000
	Miscellaneous exp.	2,000	Cash	2,000	Cash	2,000
(i)	Debtor - SC	400	Debtor – SC	200	Debtor - SC	200
	Suspense	400	Sale	200	Sale	200
(j)	Suspense	2,000	Debtor	1,000	Debtor	1,000
	Purchase	1,000	Sale	1,000	Purchase	1,000
	Sale	1,000				
(k)	Sales	9,090				
	Suspense	9,090				

Dr.	Suspense account	Cr.
Difference in trial	6,402	
Creditor PP	1,288	100
Purchase	1,000	100
Sale	1,000	400
		9,090

Answer-7

Do it yourself.

ICAP PAST PAPER QUESTIONS**QUESTION-1**

The trial balance of Eastern Products showed a short credit of Rs. 6,264 as at June 30, 2008. A suspense account was opened for the difference and the profit for the year was then calculated at Rs. 956,180.

The following errors and adjustments were discovered subsequently:

- (i) An invoice of Rs. 3,700 was debited to purchases but the goods were received after year-end and were not included in the closing inventory.
- (ii) A cheque of Rs. 1,850 received from a customer was dishonoured on June 25, 2008 but no entry was made in the books. Cash there against was received after year-end.
- (iii) Purchase of office equipment costing Rs. 15,200 was entered in the purchases account. Depreciation on office equipment is provided at the rate of 10%.
- (iv) A purchase invoice of Rs. 197 was debited to the supplier account as Rs. 917.
- (v) Purchase returns book was under-casted by Rs. 650.
- (vi) The opening balance of furniture account was brought forward as Rs. 18,300 instead of Rs. 13,800. Depreciation on furniture is provided at the rate of 10%.
- (vii) A balance of Rs. 730 in the sales ledger is to be offset against a balance of Rs. 880 in the purchase ledger.

Required:

- (a) Prepare journal entries to adjust the above items.
- (b) Recalculate the net profit for the year.

(18)

{Autumn 2008, Q # 6}

QUESTION-2

Mr. Fawwad owns a factory and closes his books on June 30. The trial balance prepared by him, contained a difference which he kept in a suspense account. On scrutinizing the records, the following errors were detected:

- (i) A cheque of Rs. 10,800 was paid to a creditor who allowed 10% cash discount. The payment was correctly entered in the bank book but was posted to purchase account as Rs. 1,080 only. No other entry was made.
- (ii) Sundry debtors include an amount of Rs. 15,000 which had proved irrecoverable but was not written off. According to a consistent policy, a reserve for bad debt was created @ 5% on closing debtors;
- (iii) Commission of Rs. 3,500 was paid but was debited twice, once in the party's account and again in the commission account;
- (iv) Purchases of Rs. 4,500 were entered as sales in the Sales Day Book.
- (v) In the salaries account, a sub-total of Rs. 12,600 was carried over to the next page as Rs. 1,260 on the wrong side.
- (vi) Rs. 600 collected from a party in respect of dues which had been written off as bad two years ago, was credited to the debtor account.
- (vii) Goods invoiced at Rs. 4,600 were returned by a debtor. These were entered in the purchase book and posted from there to debtor's account as Rs. 6,400.
- (viii) The discount column in the sales day book was short casted by Rs. 1,500.
- (ix) A cash sale of Rs. 7,300 to Mr. Anwar was correctly entered in the cash book but was posted to the credit of Mr. Anwar's account
- (x) An amount of Rs. 17,400 was received in full and final settlement from a customer after he was allowed a discount of Rs. 2,600. However, while writing the books, the amount received was entered in the discount allowed column of the bank book and the discount allowed was entered in the bank column.

Required:

Pass rectification entries (without narration) to correct the above errors.

(15)

{Autumn 2010, Q# 5}

QUESTION-3

The trial balance prepared by A.A. Enterprise showed a difference of Rs. 47,090 which was put on the credit side of a suspense account. An investigation disclosed that:

- (i) The total of purchase return day book amounting to Rs. 16,160 had not been posted to the ledger.
- (ii) Discount received amounting to Rs. 11,320 had been debited to discount allowed account.
- (iii) The sales account had been added short by Rs. 10,000.
- (iv) An asset bought four years ago for Rs. 7,000 and depreciated to Rs. 1,200 had been sold for Rs. 1,500 at the beginning of the year. The receipt of cash has been posted in the bank book but corresponding entries have not been recorded.
- (v) A credit sale of Rs. 1,470 had been credited to the customer's account as Rs. 1,740. A bad debt of Rs. 1,560 has to be written off. Provision for doubtful debts is to be maintained at 10% of debtors. Debtors appearing in the trial balance are Rs. 23,390 and the provision for bad debts account shows a credit balance of Rs. 2,320.
- (vi) A sub-total of Rs. 29,830 on the list of closing stock had been carried over as Rs. 29,380 and another sheet had been overcast by Rs. 1,000.

Required:

Pass rectification/adjustment entries to correct the above errors. (Narrations are not required) (11)
 {Autumn 2009, Q # 2}

QUESTION-4

The trial balance of Ayub Brothers did not agree as at 31 December 2011 and the difference was carried to a suspense account. On scrutinising the books of account, the following types of errors were detected:

- (i) Debtors include Rs. 15,000 which are irrecoverable and need to be written off.
- (ii) Goods invoiced at Rs. 4,600 were returned by a customer. It was entered in the purchase book and posted from there to a creditor's account as Rs. 6,400.
- (iii) A cheque of Rs. 8,000 received from a customer was not posted to his ledger account. Moreover, the corresponding sales invoice for Rs. 12,000 was incorrectly passed through the sales day book as Rs. 2,000.
- (iv) An amount of Rs. 3,800 owed by Zahid & Company for goods supplied was to be adjusted against an amount of Rs. 8,500 owed to Zahid & Company. No entry has been made in this regard.
- (v) A purchase of Rs. 15,100 was entered in the purchase day book as Rs. 1,500 and posted to the supplier's account as Rs. 5,100.
- (vi) Goods invoiced at Rs. 23,000 and returned by Hamid Khan, a debtor, were entered in the purchase day book and posted therefrom to Hammad Khan, a creditor, as Rs. 32,000.
- (vii) A supplier's invoice for Rs. 12,300 had been entered in the purchase day book on 28 December 2011. However, the goods were received on 2 January 2012.
- (viii) Some items of furniture which stood in the books at Rs. 24,000 on 1 January 2011 were disposed of on 30 June 2011 in exchange for new furniture costing Rs. 20,800. A net invoice of Rs. 9,200 was passed through the purchase day book. Depreciation on furniture is charged at 10% on written down value.
- (ix) Ayub Brothers maintains a provision of 5% of the gross amount of debtors.

Required:

Prepare journal entries to rectify the errors identified above.

(Narrations are not required.)

(21)
 {Spring 2012, Q# 4}

QUESTION-5

The trial balance of A.A. Enterprise for the year ended 30 June 2013 shows a difference of Rs. 12,950 which has been placed to the debit of a suspense account. A careful analysis of the accounting records has revealed the following:

- (i) Wages included Rs. 60,000 towards installation of a new plant in August 2012. The company charges depreciation on plant and machinery @ 15%.
- (ii) A cheque of Rs. 13,500 was paid to a creditor who allowed 10% cash discount, but the payment was posted to purchase account as Rs. 1,350 only.
- (iii) Goods invoiced at Rs. 5,700 returned by a debtor were entered in the purchase day book whereas the amount recorded in the debtors account was Rs. 7,500.
- (iv) The sub-total of a stock sheet had been carried forward as Rs. 21,380 instead of Rs. 21,830 and another sheet had been over-casted by Rs. 1,000.
- (v) Mr. Arslan, the owner, had withdrawn goods worth Rs. 4,680 for personal use. No entry has been made in the books.
- (vi) A cheque of Rs. 10,000 received from a customer has not been posted to his ledger.
- (vii) A sales invoice for Rs. 14,000 had been wrongly passed through the sales day book as Rs. 1,400.
- (viii) Goods invoiced at Rs. 12,000 returned by Salman Khan were entered in the purchase day book and posted therefrom to Saleem Khan's account, who is a creditor, as Rs. 21,000.
- (ix) Goods worth Rs. 14,700 purchased on 27 June 2013, had been entered in the purchase day book and credited to the supplier's account but the goods were not delivered till 3 July 2013. The title of the goods had however passed on 27 June 2013.
- (x) The trial balance shows a debtor control account balance of Rs. 82,500 and a credit of Rs. 16,320 in provision for bad debts account. Rs. 11,560 is no more receivable and needs to be written off. A provision for doubtful debts is required to be maintained at 10% of debtors.

Required:

Pass rectification entries to correct the above errors. (Narrations are not required)

(20)

{September 2013, Q# 4}

QUESTION-6

While closing his books on 30 June 2012, Mr. Rehan identified a difference in the trial balance which he kept in a Suspense Account. He prepared his P & L account on the basis of this trial balance and arrived at a profit of Rs. 679,000. While trying to reconcile the trial balance he detected the following errors:

- (i) Bill received from ABC Furnishings on 1 July 2011 for repairs to furniture Rs. 3,000 and for new furniture supplied Rs. 10,000 was entered in the purchase day book as Rs. 11,000. Depreciation on furniture is provided @ 10 % per annum.
- (ii) Furniture which stood in the books at Rs. 5,000 was sold on 1 July 2011 for Rs. 2,750 in part exchange of new furniture costing Rs. 8,750 and the net invoice of Rs. 6,000 was passed through the purchase day book.
- (iii) Goods worth Rs. 10,200 purchased from a creditor on 28 June 2012 had been entered in the Purchase Day Book and credited to him but were not delivered till 5 July 2012. However, the title of the goods had passed on 28 June 2012.
- (iv) A computer bought originally for Rs. 70,000 four years ago and depreciated to Rs. 12,000 had been sold for Rs. 15,000 on the first day of the year. The amount deposited was entered in the bank book but no other entry was passed.
- (v) Goods valuing Rs. 13,000 were returned by Zahid. These were entered in the Purchase Day Book and posted to a supplier's account as Rs. 31,000.
- (vi) Discount of Rs. 3,700 was allowed but posted to the credit of discount received a/c as Rs. 7,300.

- (vii) A cheque of Rs. 10,800 was paid to a creditor who allowed 10% cash discount, but the payment was wrongly posted to purchase account as Rs. 1,080 only without any other entry.

Required:

- (a) Pass rectification entries (without narration) to correct the above errors. (20)
 (b) Recalculate the profits after taking into account the above corrections. (04)

{Autumn 2012, Q#3}

QUESTION-7

	Rupees '000'	
	Dr.	Cr.
Land and building cost	100,000	
Land and Building accumulated depreciation at June 30, 2001	-	20,000
Plant-cost	120,000	
Plant - accumulated depreciation at June 30, 2001	-	30,000
Stocks in trade	25,000	-
Debtors	15,000	-
Bank	82,500	-
Creditors	-	17,000
Prepaid Rent	4,000	-
Accrued Salaries	-	3,000
Mr. Ehsan's Capital Account	-	194,000
Profit for the year ended June 30, 2001	-	97,500
Total	346,500	361,500

A suspense account was opened for the difference in the trial balance.

Following errors were discovered:

- (i) A creditor's account has been debited with a Rs.3.0 million sales invoice (which had been correctly recorded in the sales account).
 (ii) The heat and light account had been credited with cash paid Rs. 1.5 million.
 (iii) Mr. A Gondal had been credited with a cheque received from Mr. I. Gondal for Rs.8.0 million. Both are debtors.
 (iv) The insurance account contained a credit entry for insurance prepaid of Rs.5.0 million, but the balance had not been carried down and hence had been omitted from the above trial balance.
 (v) Purchase return had been over cast by Rs.7.0 million.

Required:

- a. Prepare journal entries to correct each of the above errors. (05)
 b. Open the Suspense Account at June 30, 2001 and enter the relevant corrections. (05)
 c. Name the type of error which has occurred in each of items (i), (ii) & (iii). (03)
 d. Recalculate the net profit for the year to June 30, 2001. (03)
 e. Prepare the Balance Sheet at June 30, 2001. (08)

{Spring 2002, Q # 2}

QUESTION-8

Messrs Modern Chemicals were unable to agree the trial balance on June 30, 2001 and have raised a 'Suspense Account' for the difference. Later the following errors were discovered and rectified and the 'Suspense Account' was balanced:

- (a) The addition of the sundry purchases in the purchase journal was short by Rs. 1,500.
 (b) Goods valuing of Rs. 1,050 returned by Mr. Farooq, a customer, had been posted to the debit of 'Accounts Receivables' and also to sales returns.
 (c) Discount amounting to Rs. 300 allowed to customer had been posted in his account, but not posted in the discount account.

- (d) Insurance premium of Rs. 4,500 paid on June 30, 2000 for the year ended June 30, 2001 had not been brought forward.

Required:

- (i) Pass journal entries to rectify the above mistakes,
 (ii) Draw up the 'Suspense Account'.
 (iii) Show how the above mistakes affect the profit for the year ended June 30, 2001.

(15)
 {Autumn 2001, Q# 4}

QUESTION-9

During the course of audit of Desktop Products for the year ended June 30, 2007, the following information has been gathered:

- (a) Equipment costing Rs. 200,000 with a carrying value of Rs. 60,000 was traded-in for a new equipment valuing Rs. 250,000 on July 02, 2006. A trade-in allowance of Rs. 45,000 was received on the equipment. However, while recording this transaction only the net payment to supplier was recorded as an addition to fixed assets. Depreciation was provided on the old as well as the new equipments at 10% on straight line basis.
- (b) The following errors were observed in the valuation of year-end stocks and stores and spares:
- An-amount of Rs. 152,700 was carried forward as Rs. 125,700 in the stock sheets.
 - Stores and spares item code 35D was overvalued by Rs. 37,000.
- (c) Stock costing Rs. 138,750 was received on June 30, 2007 and included in the physical inventory taken on that date. However, the purchase was recorded when the invoice was received on July 4, 2007.
- (d) An old machine was sold to Mr. Shafique for Rs. 50,000. According to the agreement, the purchaser made a down payment of Rs. 35,000. The balance was received on December 30, 2006, but was credited to the sales account.
- (e) A loan of Rs. 500,000 had been obtained on January 1, 2007. It carried interest @ 12% per annum compounded quarterly. Rs. 450,000 had been repaid on March 31, 2007 which included the amount of interest up to March 31. Interest for the quarter ended June 30, 2007 had not been accrued.
- (f) While making adjustments for the year ended June 30, 2006 an adjusting entry to accrue sales commission amounting to Rs. 24,000 was recorded. During the current year, Rs. 17,000 were paid and debited to sales commission account. Rs. 7,000 are still outstanding.
- (g) The following cheques were issued on June 30, 2007;

Description	Cheque No.	Amount (Rs.)
Advance to an employee	128364	12,000
For goods supplied in May	128365	17,000

- Cheque No. 128364 was handed over to the employee on June 30 and is appearing as a reconciling item in the bank reconciliation statement related to June 2007.
- Cheque No. 128365 was handed over to the supplier on July 1, 2007 and is not appearing on the bank reconciliation statement.

Required:

Pass necessary journal entries in respect of the above.

(17)
 {Autumn 2007, Q# 3}

QUESTION-10

The draft balance sheet of Time Life Enterprises (TLE) as on December 31, 2008, is being prepared. On reviewing the accounts of the business, its auditor found that the records have been correctly maintained except for the following events:

- (i) On January 17, 2008 a contract was signed for the purchase of a machine from Makers Limited for Rs. 1,125,000 which is to be delivered on July 17, 2009. TLE paid an advance of Rs. 450,000 on the signing of the contract and the balance was to be paid on delivery of the machine. The advance was debited to plant and machinery account.
- (ii) Installation of a machine was completed on January 21, 2008. The cost of machine of Rs. 2,700,000 was debited to plant and machinery account. The cost of installation amounting to Rs. 300,000 had been debited to Repairs Account.

The depreciation is charged on declining balance method at 10 per cent per annum. Depreciation on additions is provided from the month in which the asset is acquired. Depreciation expenses for the year 2008 have been correctly calculated and recorded except for the impact of errors discussed above.

Required: Pass the adjusting entries.

(08)

{Spring 2009, Q # 6}

QUESTION-11

The accountant of BA Enterprises prepared an income statement for the year ended December 31, 2010 which showed gross profit of Rs. 1,050,000 and net profit of Rs. 650,000. The company sells goods at cost plus mark-up of 20%.

The following errors/omissions were found on a detailed review of the financial statements.

- (a) Items not included in the income statement:
 - (i) Free samples costing Rs. 25,000 were sent to potential and regular customers.
 - (ii) Goods costing Rs. 10,000 were taken by the owner for personal use and goods having sales value of Rs. 2,500 were used for office repairs,
 - (iii) Unpaid salaries and transportation (inward) expenses payable, amounting to Rs. 20,000 and Rs. 10,000 respectively.
- (b) Old furniture items were sold for Rs. 3,000 and entered in the sales day book. The book value of these items was Rs. 2,000.
- (c) Rs. 24,500 were paid to a creditor as full and final settlement of an amount of Rs. 25,000 and debited to purchases.
- (d) The sales day book was overcast by Rs. 30,000.
- (e) An amount of Rs. 67,000 was carried forward in the purchase day book as Rs. 6,700.
- (f) Goods sent on sale or return basis and having a sales value of Rs. 18,000 were still held in inventory by the consignee. At the time of dispatch, these were recorded as sales.

Required:

Ascertain the correct amount of gross and net profit for the year.

(13)

{Spring 2011, Q# 6}

QUESTION-12

The Accountant of Saleem Limited has made the following adjustments for the year ended 30 June 2015 in arriving at the net profit of Rs. 15,500,000.

- (i) While preparing the draft financial statements, opening stock of Rs. 1,500,000 was included as Rs. 5,100,000. The error was timely identified and the accountant reduced the value of closing stock by Rs. 3,600,000.
- (ii) Goods purchased worth Rs. 550,000 were recorded in sales journal. The error was rectified by reducing sales by Rs. 550,000.
- (iii) On 1 January 2015, miscellaneous items of machinery were purchased for Rs. 250,000 but were recorded as Rs. 25,000. The said entry was corrected by debiting the difference to the repairs

- expense account. It is the company's policy to provide depreciation annually on straight line basis at the rate of 10%.
- (iv) Prepaid insurance amounting to Rs. 740,000 pertaining to the period from 1 July 2014 to 31 December 2014 was not brought forward from the previous year. Difference in trial balance was removed by creating a suspense account. At year-end, when actual error was identified, suspense account was credited by debiting prepaid insurance.
- (v) Purchase return to a supplier amounting to Rs. 400,000 was not recorded. The error was rectified by debiting the supplier account and crediting the suspense account. The balance in the suspense account was included in current Liabilities.

Required:

Compute the correct net profit.

(08)

QUESTION-13

- (a) While reviewing the draft financial statements of Sky Electronics (SE) for the year ended 31 December 2017, following errors have been identified:
- (i) Computers costing Rs. 240,000 purchased on 1 September 2017 for office use were debited to purchases account. SE depreciates computers at 20% per annum using straight line method.
- (ii) Furniture costing Rs. 1,200,000 and having a book value of Rs. 670,000 as on 31 December 2017 had already been sold on 1 November 2017. The proceeds of Rs. 700,000 were credited to sales. SE depreciates furniture at 10% per annum using straight line method.
- (iii) On 1 April 2017, SE rented-out one of its premises at an annual rent of Rs. 900,000 payable in advance. The rent received was credited to income.
- (iv) Trade receivables include a balance of Rs. 180,000 which is irrecoverable but has not been written-off. Further, a recovery of Rs. 96,000 against receivables written off in prior years was credited to trade receivables. As per SE's policy, provision for doubtful receivables has already been made at 5% on year-end balance.
- (v) A cheque of Rs. 192,000 was received after a discount of 4% from a customer. However, in the cash book, the amount received was entered in the discount allowed column and the amount of discount was entered in the bank column.

Required:

- (a) Prepare rectification entries to correct the above errors. (*Narrations are not required*) (11)
- (b) A trial balance is merely a proof of arithmetical accuracy. Name the types of errors which a trial balance fails to disclose. (02)

{Spring 2018, Q#7}

QUESTION-14

Draft income statement of Timothy Enterprises (TE) for the year ended 31 December 2017 shows gross profit of Rs. 850,000 and net profit of Rs. 460,000.

During the review of the financial statements, following errors were noticed:

- (i) An invoice of Rs. 3,700 was debited to purchases but the goods were received after year-end and were not included in the closing inventory.
- (ii) Transportation inward amounting to Rs. 2,000 was included in transportation outward.
- (iii) The sub-total of a closing stock sheet had been carried forward as Rs. 21,830 instead of Rs. 21,380.
- (iv) A receipt of Rs. 21,850 was credited to sales. The amount was received from a debtor as full and final settlement of an outstanding balance of Rs. 23,000.
- (v) Goods having sales value of Rs. 4,500 were used for office repairs. No entry has been made in the books.

- (vi) Purchase of office computer on 1 April 2017 amounting to Rs. 42,000 was entered in the purchase account.
- (vii) An item of furniture was sold on credit for Rs. 3,000 and entered in the sales day book. The book value of this item was Rs. 5,000.
- (viii) Purchase return amounting to Rs. 6,700 has been recorded as sales return.
- (ix) The owner had withdrawn goods costing Rs. 4,680 for personal use. No entry has been made in the books.

TE uses periodic inventory method. Goods are sold at cost plus mark up of 25%. Depreciation on office computer is provided at the rate of 25%.

Required:

Compute the corrected gross profit and net profit for the year.

(14)

{Autumn 2018, Q#6}

QUESTION-15

The trial balance of Sibi Brothers (SB), dealer of equipment and machines, did not agree as at 31 December 2018 and the difference was carried to suspense account. The financial statements prepared from the trial balance showed a gross profit of Rs. 854,000.

During review, following errors were detected:

- (i) A sales invoice of Rs. 24,000 was debited to the debtor's account as Rs. 42,000.
 - (ii) A purchase of Rs. 23,000 was entered in purchases day book as Rs. 32,000 and posted to the creditor's account as Rs. 3,200.
 - (iii) An item was included in closing inventory at its cost of Rs. 94,000. Due to lower demand, it had a net realizable value of Rs. 81,000.
 - (iv) A sub-total of Rs. 49,000 was carried forward in the sales day book as Rs. 94,000.
 - (v) Return inward and return outward appearing in the trial balance were Rs. 82,000 and Rs. 99,000 respectively. While preparing the financial statements, the amount of return inward was shown as return outward and vice versa.
 - (vi) Discount received of Rs. 4,100 was posted to the debit of discount allowed.
 - (vii) SB started using an inventory item as office machine effective from 1 October 2018. No adjustment has been recorded and this item is included in closing inventory. The cost and selling price of this item are Rs. 145,000 and Rs. 182,000 respectively.
 - (viii) Another office machine costing Rs. 270,000 with a carrying value of Rs. 127,200 as on 1 January 2018 was disposed off on 1 September 2018 for Rs. 80,000. The sale proceeds were credited to accumulated depreciation account and whole year's depreciation was provided on the machine.
- The balance as per bank statement as on 31 December 2018 was reconciled with cash book. During review, following matters were noted in bank reconciliation statement:
- (i) List of unpresented cheques included:
 - a cheque issued to a creditor on 30 April 2018 amounting to Rs. 28,000.
 - a cheque dated 30 December 2018 amounting to Rs. 16,000 which was handed over to the creditor on 6 January 2019.
 - (ii) List of deposits in transit included a cheque dated 15 January 2019 from a debtor amounting to Rs. 35,000.
 - (iii) Bank charges of Rs. 3,100 correctly debited by bank had been added back.

Other information:

SB uses periodic inventory method to record the inventory. Office machines are depreciated at 10% from the month of addition to the month prior to disposal using reducing balance method. Control accounts are not maintained for Debtors and Creditors.

Required:

- (a) Prepare journal entries to correct the above errors. (*Narrations are not required*) (15)
 (b) Compute the corrected gross profit. (03)

{Spring 2019, Q# 6}

QUESTION-16

Financial statements of Zeta Traders (ZT) for the year ended 30 June 2019 is under preparation. Following information has been gathered in this respect:

- (i) Trade receivables as at 30 June 2019:

	Rupees
Trade receivables	2,500,000
Provision for doubtful debts	(400,000)
Net trade receivables	2,100,000

It was noted that:

- an old outstanding balance of Rs.250,000 which was written off previously was settled during the year at 20% discount. The amount received was credited to trade receivables.
- purchase return amounting to Rs.500,000 was mistakenly debited to trade receivables.
- Rana and Sons having a balance of Rs.80,000 due for more than one year was declared bankrupt and its balance needs to be written off.

ZT maintains provision for doubtful debts:

- at 25% for balances outstanding for more than six months. As at 30 June 2019, such balances are aggregated to Rs.600,000 (excluding balance of Rana and Sons); and
- at 5% for the remaining balances

- (ii) A cheque dated 25 June 2019 for Rs.150,000 was received from an insurance company and deposited by the owner in his personal bank account. The cheque was received in settlement of an inventory loss claim. Actual inventory loss was determined at Rs.180,000. No entries have been made for loss of inventory and insurance claim.
- (iii) The opening balance of accumulated depreciation was brought forward as Rs.280,000 instead of Rs.820,000. The error was tried to be corrected with the difference by crediting accumulated depreciation and debiting depreciation expense.
- (iv) Goods amounting to Rs.350,000 received from a supplier on 30 June 2019 were included in the year-end physical inventory count but recorded in purchases day book on 1 July 2019.
- (v) Third party stock of Rs.500,000 lying on ZT premises has been included in ZT's year-end inventory.
- (vi) ZT uses periodic inventory method.

Required:

- (a) Prepare adjusting / correcting entries for the year ended 30 June 2019. (*Narrations are not required*) (13)
 (b) Compute the net effect of the above on ZT's profit for the year ended 30 June 2019. (03)

(Autumn 2019, Q # 07)

QUESTION-17

Following draft statement of financial position as on 31 December 2019 of Naltar Establishment (NE) is under review:

Assets	Rs. in '000	Equity & liabilities	Rs. in '000
Fixed assets – net	22,590	Opening capital	32,240
Current assets:		Net profit for the year	9,360
Stock	15,320		41,600
Trade receivables	19,730	Current liabilities:	
Drawings	1,400	Trade payables	17,332
Cash & bank	3,850	Other payables	2,680
	40,300	Suspense account	798
		Discount received	480
			21,290
	62,890		62,890

The following matters are identified:

- Goods costing Rs. 5,800,000 received on 31 December 2019 were included in the year-end physical count. However, these goods were recorded in purchases day book on 5 January 2020 on receipt of the invoice.
- Year-end physical count sheets include a third party stock of Rs. 1,320,000.
- Goods sold on credit at a trade discount of 10% were recorded at gross amount of Rs.6,400,000.
- An unidentified credit of Rs. 294,000 appearing in the bank statement was accounted for in the suspense account. It was discovered that the credit was a settlement of an old outstanding balance previously written off. The amount was net of 2% bank charges.
- A cheque of Rs. 500,000 issued by a customer as an advance was dishonored and returned by the bank on 31 December 2019. No entry was made on return of cheque.
- Operating expenses include insurance premium of Rs. 900,000 paid during the year, out of which Rs. 200,000 pertain to owner's residential premises. The policy is valid up to 30 June 2020.
- An upgradation of a plant to improve quality and efficiency was completed on 1 July 2019 at a cost of Rs. 2,500,000. The cost was charged to repair and maintenance expense.
- Total sales of 26 December 2019 as per sales day book was Rs. 167,000. This was posted in trade receivable control account as Rs. 671,000. Trial balance was balanced by taking the difference to the suspense account.

Other information:

NE uses periodic stock method. The plant is depreciated at 20% using diminishing balance method.

Required:

Prepare corrected statement of financial position as on 31 December 2019.

(17)

(Spring 2020, Q # 08)

QUESTION-18

The trial balance of Moon Mart (MM) did not agree as at 31 December 2021 and the shortage of Rs. 215,000 on the debit side was carried to suspense account. The financial statements prepared from the trial balance showed net profit of Rs. 1,431,000.

During review, following matters were noted:

- (i) A return outward of Rs. 18,000 was posted to the debit of return inward account in general ledger.
- (ii) A sales invoice of Rs. 42,000 was posted twice in sales ledger.
- (iii) Balance of accumulated depreciation of equipment was brought forward as Rs. 641,000 instead of Rs. 461,000 on 1 January 2021.
- (iv) Following entries in cash book were not posted to general ledger:
 - Receipt of annual rent for the period ending 31 March 2022 amounting to Rs. 336,000.
 - Payment of Rs. 220,000 for equipment purchased on 1 May 2021.
 - Cash purchases of Rs. 50,000.

Additional information:

- (i) After passing all the adjustments, the remaining amount of suspense account is to be considered as loss from embezzlement.
- (ii) MM uses periodic inventory method. Control accounts are not maintained for trade receivables and payables. Equipment are depreciated at 15% using reducing balance method.

Required:

- (a) Prepare suspense account.
- (b) Compute the corrected net profit.

(04)

(04)

(Spring 2022, Q # 05)

ICAP PAST PAPER SOLUTIONS

Note: In all of the solutions original and wrong entries are only prepared for the understanding of students. These are not required in exam solution. However, students may prepare these entries in working.

Answer-1

Rectifying	Original	Wrong
(i) Creditors A/c 3,700 Purchases A/c 3,700		Purchases a/c 3,700 Creditors a/c 3,700
(Entry for purchase of goods passed before the receipt of goods, now being reversed)		
(ii) Debtors a/c 1,850 Bank a/c 1,850	Debtors a/c 1,850 Bank a/c 1,850	
(Entry for dishonoured omitted, now being passed)		
(iii) Equipment a/c 15,200 Purchases a/c 15,200	Equipment a/c 15,200 Payable/cash 15,200	Purchase a/c 15,200 Payable/cash 15,200
(Fixed assets purchased wrongly debited to purchase account, now being rectified)		
Depreciation a/c 1,520 Acc. Dep. a/c 1,520	Depreciation a/c 1,520 Acc. Dep. a/c 1,520	
(Entry for the depreciation of the above mentioned asset)		
(iv) Suspense a/c 1,114 Creditors a/c 1,114	Purchases a/c 197 Creditors a/c 197	Purchases a/c 197 Creditors a/c 917
(Purchased invoice of 197 wrongly debited to supplier account as 917)		
(v) Suspense a/c 650 Purchase Return a/c 650		
(purchase return book under casted, now rectified)		
(v) Suspense a/c 4,500 Furniture a/c 4,500		
(Opening balance wrongly brought forward, now rectified)		
Acc. Dep. a/c 450 Depreciation a/c 450		
(Depreciation on excess balance reversed)		
(vii) Creditor a/c 730 Debtor a/c 730		
(Balance in purchase ledger set off against the balance in sales ledger)		

Statement showing adjustments in profits

Un adjusted Profit	956,180
Less:	
Depreciation	1,520
	(1,520)
Add:	
Purchases	3,700
Purchases	15,200
Purchase return	650
Depreciation	450
	20,000
Adjusted profit figure	974,660

Answer-2

Rectifying		Original		Wrong	
(i)	Creditor 12,000 Suspense 9,720 Discount received 1,200 Purchase 1,080	Creditor 12,000 Dis. Received 1,200 Bank 10,800		Purchase 1,080 Bank 10,800	
(ii)	Bad debt 15,000 Debtor 15,000	Bad debt 15,000 Debtor 15,000		No entry	
(iii)	Suspense 3,500 Party a/c 3,500	Commission exp. 3,500 Bank 3,500		Party a/c 3,500 Commission exp. 3,500 Bank 3,500	
(iv)	Sale 4,500 Debtor 4,500 Purchases 4,500 Creditors 4,500	Purchases 4,500 Creditors 4,500		Debtor 4,500 Sale 4,500	
(v)	Salaries a/c 13,860 Suspense 13,860				
(vi)	Debtor 600 Bad debt rec. 600	Cash 600 Bad debt rec. 600		Cash 600 Debtor a/c 600	
(vii)	Debtor a/c 1,800 Sale return 4,600 Purchase 4,600 Suspense 1,800	Sale Return 4,600 Debtor 4,600		Purchase a/c 4,600 Debtor a/c 6,400	
(viii)	Discount allowed 1,500 Suspense a/c 1,500				
(ix)	Mr. Anwar a/c 7,300 Sale 7,300	Cash 7,300 Sale 7,300		Cash 7,300 Mr. Anwar a/c 7,300	
(x)	Bank 14,800 Discount all. 14,800	Bank 17,400 Discount all. 2,600 Debtor 20,000		Discount all. 17,400 Bank 2,600 Debtor 20,000	
Provision for doubtful debt		490			490
P/L a/c					
		9,800 x 5%			

(W-1)

Debtor a/c		
	Rs.	Rs.
Bad debt receivable	600	Bad debt 15,000
Suspense	1,800	Sales 4,500
Sales	7,300	
Bal. c/d	9,800	

Answer-3

Rectifying		Original		Wrong	
(i)	Suspense a/c Purchase Return	16,160 16,160			
(Purchase return day book total had not been posted to the ledger)					
(ii)	Suspense a/c Disc. allowed Discount received	22,640 11,320 11,320	Creditor Dis. Received	11,320 11,320	Creditor Dis. Allowed 11,320 11,320
(Discount received had been wrongly debited to discount allowed account)					
(iii)	Suspense a/c Sales a/c	10,000 10,000			
(Sales account added short now being rectified)					
(iv)	Suspense a/c Acc. Dep. Asset-cost P/L (bal.)	1,500 5,800 7,000 300	Bank Acc. Dep. Asset-cost Gain on disposal	1,500 5,800 7,000 300	Bank 1,500
(Disposal of fixed asset only debited to bank account)					
(v)	Debtors(1,740+1,470) Suspense ac	3,210 3,210	Debtors Sale	1,470 1,470	Debtors Sale 1,740 1,470
(Credit sale of 1,470 credited to debtors account as 1,740)					
	Bad Debts Debtors	1,560 1,560	Bad Debts Debtors	1,560 1,560	
(Bad debt expense not recorded)					
	Prov. For doubt ful debt Bad debt P & L (W) Prov. For doubtful debt.	1,560 1,560 1,744 1,744			
(vi)	Closing stock Trading a/c (29,830-29,380) Trading a/c Closing stock	450 450 1,000 1,000			
(Errors in list of stock now being rectified)					

WORKINGS

Dr.	Provision for doubtful debt			Cr.
Bad debt	1,560	b/d		2,320
c/d (25,040 x 10%)	2,504	P & L (bal.)		1,744
	<u>4,064</u>			<u>4,064</u>
Dr.	Debtors			Cr.
Unadjusted balance	23,390	Bad debt		1,560
Suspense	3,210	Adj. cl. Bal.		25,040
	<u>26,600</u>			<u>26,600</u>

Answer-4

Rectifying			Original		Wrong
(i)	Bad debt Debtor	15,000 15,000	Bad debt Debtor	15,000 15,000	x
(ii)	Creditor Sale return Purchase Debtor Suspense	6,400 4,600 4,600 4,600 1,800	Sale return Debtor	4,600 4,600	Purchase 4,600 Creditor 6,400
(iii)	Suspense Debtor Debtor Sale	8,000 8,000 10,000 10,000	Bank Debtor Debtor Sales	8,000 8,000 12,000 12,000	Bank 8,000 Debtor 2,000 Sales 2,000
(iv)	Creditor-Zahid Debtor- Zahid	3,800 3,800	Creditor Zahid Debtor Zahid	3,800 3,800	x
(v)	Purchases Creditor Suspense	13,600 10,000 3,600	Purchase Creditor	15,100 15,100	Purchase 1,500 Creditor 5,10
(vi)	Creditor-Hammad Sale- return Purchase Debtor-Hamid Suspense	32,000 23,000 23,000 23,000 9,000	Sale return Debtor	23,000 23,000	Purchase 23,000 Creditor 32,00
(vii)	Creditor Purchase	12,300 12,300			Purchase 12,300 Creditor 12,30
(vii)	Creditor Purchase Furniture P/L (bal.) Fur.-BV (W-1) Payable for asset	9,200 9,200 20,800 11,200 22,800 9,200	Furniture P/L (bal.) Furniture-BV Payable for Asset	20,800 11,200 22,800 9,200	Purchase 9,200 Creditor 9,20
	Furniture Depreciation Depreciation Furniture	1,200 1,200 1,040 1,040			
(ix)	Prov. For doubtful debts Bad debts P/L Prov. for DD [2,220 (W-2)+15,000]	15,000 15,000 17,220 17,220			

WORKINGS**(W-1) Book value of furniture at the time of disposal**

Book value (opening as on 1.1.2011)	24,000
Less: Depreciation expense (30.6.2011) $(24,000 \times 10\% \times 6/12)$	(1,200)
	<u>22,800</u>

(W-2) Increase/ (decrease) in provision required

Decrease in provision required $(44,400 \times 5\%)$	2,220
--	-------

Net increase / (decrease) in debtors

Adjustment (i)	
Adjustment (ii)	(15,000)
Adjustment (iii)	(4,600)
Adjustment (iii)	(8,000)
Adjustment (v)	10,000
Adjustment (vii)	(3,800)
	<u>(23,000)</u>
	<u>(44,400)</u>

As debtors are decreasing so provision will decrease.

Answer 5

Rectifying		Original		Wrong
i) Plant and mach.	60,000	Plant and mach. 60,000		
Wages	60,000	Cash	60,000	Wages 60,000
Depreciation	8,250			Cash 60,000
Accumulated dep.	8,250			
$(60,000 \times 15\% \times 11/12)$				
ii) Creditor	15,000	Creditor	15,000	Purchase 1,350
Suspense	12,150	Dis. Received	1,500	Bank 13,500
Discount received	1,500	Bank	13,500	
Purchase	1,350			
iii) Sale return	5,700	Sale return	5,700	Purchase 5,700
Debtor	1,800	Debtor	5,700	Debtor 7,500
Purchase	5,700			
Suspense	1,800			
iv) Stock	450			
Trading a/c	450			
Trading a/c	1,000			
Stock	1,000			
v) Drawings	4,680	Drawings	4,680	
Purchases	4,680	Purchases	4,680	
vi) Suspense	10,000	Bank	10,000	Bank 10,000
Debtor	10,000	Debtor	10,000	
vii) Debtor	12,600	Debtor	14,000	Debtor 1,400
Sale	12,600	Sale	14,000	Sale. 1,400

viii) Sale return Creditor Suspense Purchases Debtor	12,000 21,000 9,000 12,000 12,000	Sale return Debtor	12,000 12,000	Purchase Creditor	12,000 21,000
ix) No entry		Purchases Creditor	14,700 14,700	Purchases Creditor	14,700 14,700
x) Bad debt Debtor	11,560 11,560	Bad debt Debtor	11,560 11,560		
Provision for doubtful debt Bad debt P/L (W-1) Provision	11,560 11,560 1,574 1,574				

WORKINGS

(W-1)

Dr.	Provision for doubtful debt		Cr.
Bad debt	11,560	b/d	16,320
c/d ((W-2) 63,340 x 10%)	6,334	P & L (bal.)	1,574
	<u>17,894</u>		<u>17,894</u>

(W-2)

Dr.	Debtors		Cr.
Unadjusted balance	82,500	Adj vi	10,000
Adj iii	1,800	Adj viii	12,000
Adj vii	12,600	Bad debt	11,560
		Adj. cl. Bal.	63,340
	<u>97,900</u>		<u>97,900</u>

Answer 6

Rectifying	Original	Wrong
(i) Creditor Purchases Repair expense Furniture Payable to ABC Fur. Depreciation expense Furniture (10,000 x 10%)	11,000 11,000 3,000 10,000 13,000 1,000 1,000	Repair expense Furniture Payable to ABC 3,000 10,000 13,000
		Purchases Creditor 11,000 11,000

(ii)	Creditor 6,000 Purchase 6,000 Furniture 8,750 P/L (bal.) 2,250 Furniture-BV 5,000 Payable 6,000 Depreciation expense 375 Furniture 375 (8,750 - 5,000) x 10%	Furniture 8,750 P/L (bal.) 2,250 Furniture-BV 5,000 Payable 6,000	Purchase 6,000 Creditor 6,000
(iii) As title has passed so no entry is required for it.			
(iv)	Accumulated dep. 58,000 Suspense 15,000 P/L 3,000 Computer 70,000	Accumulated dep. 58,000 Bank 15,000 P/L 3,000 Computer 70,000	Bank 15,000
(v)	Sale return 13,000 Creditor 31,000 Suspense 18,000 Debtor 13,000 Purchases 13,000	Sale return 13,000 Debtor 13,000	Purchase 13,000 Creditor 31,000
(vi)	Discount allowed 3,700 Discount received 7,300 Suspense 11,000	Discount allowed 3,700 Debtor 3,700	Dis. Rec. 7,300 Debtor 3,700
(vii)	Creditor 12,000 Suspense 1,080 Bank 10,800 Discount rec. 1,200 Purchases 1,080	Creditor 12,000 Bank 10,800 Discount rec. 1,200	Purchases 1,080

(b)						679,000
	Unadjusted profit					
	Add:					
	Purchases	(i)			11,000	
	Purchases	(ii)			6,000	
	Gain on sale of computer	(iv)			3,000	
	Sale return	(v)			13,000	
	Discount received	(vii)			1,200	
	Purchases	(vii)			1,080	
					35,280	
	Less:					
	Repair expense	(i)			3,000	
	Depreciation expense	(i)			1,000	
	Loss on exchange of furniture	(ii)			2,250	
	Depreciation expense	(ii)			375	
	Sale return	(v)			13,000	
	Discount allowed	(vi)			3,700	
	Discount received	(vi)			7,300	
					(30,625)	
					683,655	

Answer-7

				(Rs. In '000')	
Rectifying		Original		Wrong	
(i)	Debtor 3,000 Creditor 3,000	Debtor 3,000 Sale 3,000		Creditor 3,000 Sale 3,000	
(Credit sales wrongly debited to creditor account)					
(ii)	Heat & Light 3,000 Suspense 3,000	Heat & Light 1,500 Cash 1,500		Heat & Light 1,500 Cash 1,500	
(Heat and light expense wrongly credited to heat and light account)					
(iii)	Mr. A Gondal 8,000 Mr. I Gondal 8,000	Bank 8,000 Mr. I Gondal 8,000		Bank 8,000 Mr. A Gondal 8,000	
(Cheque received from I Gondal wrongly credited to A Gondal)					
(iv)	Prepaid Insurance 5,000 Suspense 5,000				
(Prepaid insurance balance omitted from trial balance)					
(v)	Purchase return 7,000 Suspense 7,000				
(Purchase return over-casted)					

(b)						
Dr.		Suspense a/c				
	Difference in trial (361,500-346,500)	15,000	Heat & Light		3,000	
			Prepaid Insurance		5,000	
			Purchase return		7,000	
		15,000			15,000	

- (c) (i) Error of commission
(ii) Error of commission
(iii) Error of commission

- (d) Unadjusted profit
Less:
Heat & Light
Purchase return

97,500

3,000
7,000
(10,000)
<u>87,500</u>

Adjusted profit

(e)

Mr. XX
Balance Sheet
as on June 30, 2001

Capital and liabilities

Capital
Opening capital
Add: Net Profit (part-d)
Less: Drawings

194,000
87,500
-
<u>281,500</u>

Current Liabilities

Trade Creditors (17,000+3,000)
Wages accrued

20,000
3,000
23,000
<u>304,500</u>

Total

AssetsNon-Current Assets

Land and building
Less: Accumulated depreciation
Plant
Less: Accumulated depreciation

100,000
(20,000)
120,000
(30,000)
<u>170,000</u>

Current Assets:

Stocks
Debtors (15,000+3,000)
Prepaid rent
Prepaid insurance
Bank

25,000
18,000
4,000
5,000
82,500
134,500
<u>304,500</u>

Total

Answer-8

(i)

Rectifying	Original	Wrong
(a) Purchases 1,500 Suspense 1,500		
(Purchase journal under casted)		
(b) Suspense 2,100 Account rec. 2,100	Sale return 1,050 Account Rec. 1,050	Account Rec. 1,050 Sale return 1,050
(Accounts receivable wrongly debited on sale return, instead of being credited)		
(c) Dis. Allowed 300 Suspense 300	Dis. Allowed 300 Customer acc. 300	Customer acc. 300
(Discount allowed not debited to discount allowed account)		
(d) Insurance exp. 4,500 Suspense 4,500		
(Prepaid insurance not brought forward)		

(ii)

Dr.	Suspense a/c	Cr.
Difference in trial (bal.)	4,200	Purchases 1,500
Account receivable	2,100	Discount allowed 300
		Insurance expense 4,500
	<u>6,300</u>	<u>6,300</u>

(iii)

	Effect on Profit
a) Purchases under casted by Rs. 1,500	Decrease
f) Discount allowed of Rs. 300 was not recorded	Decrease
g) Insurance expense was understated by Rs. 1,500	Decrease

Answer-9

Rectifying	Original	Wrong
(a) Acc. Dep. 140,000 P and L 15,000 Equipment 155,000	Equipment 250,000 Acc. Dep. 140,000 P and L (bal.) 15,000 Equipment 200,000 Cash (W-1.2) 205,000	Equipment 205,000 Cash (W-1) 205,000 Dep. 20,000 Acc. Dep 20,000
Acc. Dep. 15,500 Dep. Exp. 15,500 (155,000 x 10%)	Dep. 25,000 Acc. Dep 25,000	Dep. 20,500 Acc. Dep 20,500
(b) Stock 27,000 Trading acc. 27,000		
Manufacturing acc. 37,000 Store and spare 37,000		
(c) Purchases 138,750 Creditor 138,750	Purchases 138,750 Creditor 138,750	

(d)	Sale Rec. for machine	15,000 15,000	Cash Rec. for machine	15,000 15,000	Cash Sale	15,000 15,000
(e)	Interest exp. (W-2) Interest payable	1,950 1,950	Interest exp. Interest payable	1,950 1,950		
(f)	Sale com. Payable Sales com. Exp.	17,000 17,000	Sale com. Payable Cash	17,000 17,000	Sale com. Exp. Cash	17,000 17,000
(g)	Creditor Bank	17,000 17,000	Creditor Bank	17,000 17,000		
(As second cheque is not appearing in the BRS, it means that it has not been recorded, now being recorded)						

WORKINGS

(W-1) Cash paid on exchange

New asset cost

Less: TIA

250,000

(45,000)

205,000

(W-2) Interest expense

Interest expense from April 1, 2007 to June 30, 2007

((W-2.2) 65,000 x 12% x 3/12)

1,950

(W-2.1) Principal repaid

Total amount paid

450,000

Interest expense from January 1, 2007 to March 31, 2007

(500,000 x 12% x 3/12)

(15,000)

Principal repaid

435,000

(W-2.2) Balance amount payable

Total amount of loan

500,000

Repaid on March 31, 2007

(W-2.1)

(435,000)

Balance amount payable

65,000

Answer-10

Rectifying	Original	Wrong
Entry for (i)		
Advance for Mach. 450,000	Advance for Mach. 450,000	Plant & Mac. 450,000
Plant & Machinery 450,000	Cash 450,000	Cash 450,000
Entry for (ii)		
Plant & Machinery 300,000	Plant & Machinery 3,000,000	Plant & Mac. 2,700,000
Repair Expense 300,000	Cash 3,000,000	Repair Exp. 300,000
	(2,700,000 + 300,000)	Cash 3,000,000
Entry for depreciation	(complete data not available to pass these entries)	
Accumulated Dep. 15,000		
Dep. Exp. (W-1) 15,000		

Adjustment for depreciation

		(Excess)/
Adj. (i) Excess depreciation charged	(450,000 x 10%)	Less
Adj. (ii) Less depreciation on machine installed	(300,000 x 10%)	(45,000)
Total excess depreciation to be reversed		30,000
		(15,000)

Answer-11**Profit Reconciliation**

Unadjusted Gross Profit	1,050,000
Add: Purchases	25,000
Purchases	10,000
Purchases	2,083
Purchases	24,500
Cost of sales	15,000
Less: Carriage inward	(10,000)
Sales	(3,000)
Sales	(30,000)
Purchases	(60,300)
Sales	(18,000)
Adjusted gross profit	1,005,283
Unadjusted net profit	650,000
Adjustment for gross profit	(44,717)
Add: Gain on disposal	1,000
Discount received	500
Less: Salaries expense	(20,000)
Office repairs	(2,083)
Advertisement Expense	(25,000)
Adjusted net profit	559,700

Rectifying	Original	Wrong
Adv. Expense 25,000		
Purchases 25,000		
Drawings 10,000		
Purchases 10,000		
Office repairs 2,083		
Purchases 2,083		
$2,500 \times \frac{100}{120}$		
Salaries expense 20,000		
Salaries payables 20,000		
Carriage inward 10,000		
Carriage inward payable 10,000		
Sales 3,000	Cash 3,000	Cash 3,000
Furniture 2,000	Furniture 2,000	Sales 3,000
Gain on disposal 1,000	Gain on disposal 1,000	
Creditor 25,000	Creditor 25,000	
Purchases 24,500	Cash 24,500	Purchases 24,500
Disc. Received 500	Disc. Received 500	Cash 24,500
Sales 30,000		
Suspense 30,000		
Purchases 60,300		
Suspense 60,300		
Sales 18,000		
Debtor 18,000		
Stock 15,000		
Cost of sales 15,000		
$18,000 \times \frac{100}{120}$		

Answer-12

Unadjusted profit for the year

Rupees
15,500,000

Adjustments:

(i)	Add:	Opening Stock wrongly overvalued	3,600,000
		Undervaluation of Closing Stock	3,600,000
(ii)		Rectified Sales (550,000-550,000)	-
		Recording or purchase	(550,000)
(iii)	Add:	Rectification of Repairs Account	225,000
	Less:	Unrecorded depreciation $(250,000-25,000) \times 10\% \times 6 + 12$	(11,250)
(iv)	Less:	Debiting of prepaid Insurance	(740,000)
(v)	Add:	Rectification of purchase returns	400,000
			<u>6,523,750</u>
			<u>22,023,750</u>

Answer-13

Rectification Entries

(i)	Computer A/c	240	
	Purchases A/c		240
	Depreciation Exp.	16	
	Acc. Depreciation $[240 \times 20\% \times 4/12]$		16
(ii)	Acc. Depreciation (w-1)	510	
	Sales A/c	700	
	P/L a/c		10
	Furniture A/c		1200
	Acc. Depreciation (w-1)	20	
	Depreciation Exp.		20
(iii)	Rental Income	225	
	Rent in Advance $[900 \div 12 \times 3]$		225
(iv)	Bad Debts	180	
	Debtors		180
	Debtors	96	
	BDR Income		96
	Prov. For bad debts	8.4	
	P/L A/C $[-84 \times 5\% = 8.4]$		8.4
(v)	Rectification Entries		
	Bank A/c	184	
	Discount Allowed Exp.		184

W-1

Accumulated Depreciation of Furniture

	Rs. (000)
Acc. Dep. till year end	530
Dep. of 2 months $(1200 \times 10\% \times \frac{2}{12})$	(20)
Acc. Dep. till disposal	510

W-2

	Rs. (000)
Gross Debtors	200
Less: Discount (4%)	(8)
Net Debtors	192
Original Bank	192
Discount Allowed Exp	8
Debtors	200
Wrong Discount Allowed Exp	192
Bank	8
Debtors	200

(b) Types of errors which a trial balance fails to disclose:

- (i) Errors of commission
- (ii) Errors of omission
- (iii) Errors of principle
- (iv) Compensating error
- (v) Posting/Recording wrong amount in the books of primary (original) entry

Answer-14

Timothy Enterprises

Statement for ascertaining correct gross and net profit

Profits - as reported

- (i) Reversal of purchase / Increase in closing stock
- (ii) Misclassification of transportation costs
- (iii) Error in stock sheet
- (iv) Reversal of sales
Discount allowed
- (v) Goods used for repairs $(4,500/1.25)$
- (vi) Office computer wrongly credited to purchases account
Depreciation on office computer $(42,000 \times 25\% \times 9/12)$
- (vii) Reversal of sales
Loss on sale of furniture

Gross Profit (Rs.)	Net Profit (Rs.)
850,000	460,000
3,700	3,700
(2,000)	-
(450)	(450)
(21,850)	(21,850)
-	(1,150)
(21,850)	(23,000)
3,600	-
42,000	42,000
-	(7,875)
42,000	34,125
(3,000)	(3,000)
-	(2,000)
(3,000)	(5,000)

- (viii) Purchase returns recorded
Sales returns reversed
- (ix) Goods withdrawn by owner
Adjusted gross/net profit

6,700	6,700
6,700	6,700
13,400	13,400
4,680	4,680
890,080	487,455

Answer-15**(a) General journal**

	Description	Debit	Credit
(i)	Suspense		Rupees
	Debtors 42,000-24,000	18,000	
(ii)	Suspense		18,000
	Purchases 32,000-23,000	28,800	
	Creditors 23,000-3,200		9,000
(iii)	Trading / Cost of goods sold		19,800
	Closing inventory	13,000	
(iv)	Sales 94,000 - 49,000		13,000
	Suspense	45,000	
(v)	No entry		45,000
(vi)	Suspense		
	Discount allowed	8,200	
	Discount received		4,100
(vii)	Machine / Fixed assets		4,100
	Purchases	145,000	
	Trading / Cost of goods sold		145,000
	Closing inventory	145,000	
	Depreciation expense		145,000
	Accumulated depreciation $145,000 \times 10\% \times 3/12$	3,625	
(viii)	Accumulated depreciation $(-8,480 + 151,280 + 80,000 + 4,720)$		3,625
	Depreciation expense	227,520	
	Loss on disposal	3,760	
	Office Machine	38,720	
			270,000
(i)	Bank 28,000+16,000		
	Creditors	44,000	
(ii)	Debtors		44,000
	Bank	35,000	
(iii)	Bank charges		35,000
	Bank	3,100	
			3,100

W-1: Depreciation expense

Correct depreciation	$127,200 \times 10\% \times 8/12$	Rupees
Depreciation charged during the year	$(270,000 - 142,800 - 80,000) \times 10\%$	8,480
		(4,720)
		3,760

(b) Correct Gross Profit

	Rupees
Given	854,000
(ii) Purchases overstated	9,000
(iii) NRV adjustment	(13,000)
(iv) Sales overstated	(45,000)
(v) Return inward (Sale return) overstated (99,000-82,000)	17,000
(v) Return outward understated (99,000-82,000)	17,000
Correct gross profit	839,000

Answer-16

(a) Zeta Traders

Adjusting/correcting entries

General Journal

		Debit	Credit
	Description	----- Rupees -----	
		200,000	
(i)	Trade receivables		200,000
	Bad debt expense/Bad debts recovered		
		500,000	
	Trade payables		500,000
	Trade receivables		
		80,000	
	Provision for doubtful debts		80,000
	Trade receivables		
	Provision for doubtful debts (W-2)	94,000	
	Bad debt expense		94,000
		150,000	
(ii)	Drawings	30,000	
	Abnormal loss (P&L)		180,000
	Purchases		
(iii)	Suspense (820,000-280,000)	540,000	
	Depreciation expense		540,000
(iv)	Purchases	350,000	
	Trade payables		350,000
(v)	Trading account/COGS	500,000	
	Closing inventory		500,000

WORKINGS
(W-1)

Debtor A/c			
	Rs. '000		Rs. '000
Balance	2,500	Trade payable	500
Bad debt recovered	200	Bad debt	80
		Adjusted closing	2,120

(W-2)

Provision for doubtful A/c			
	Rs. '000		Rs. '000
Bad debts expense	80	Opening	400
Profit or loss (Bal.)	94		
Closing	226		

Bad debt expense A/c			
	Rs. '000		Rs. '000
Debtors	80	Provision for doubtful debt	80

(W-3) Calculation of closing provision

	Amount of Debt	Rate	Amount of provision
Specific provision older then 6 months	600	25%	150
Reaming (balancing)	1,520	5%	76
	2,120		226

(b) Increase/ (decrease) in net profit

	Rupees
(i) Recovery of old outstanding balance previously written-off	200,000
Adjustment for provision for doubtful debts (174 – 80)	94,000
(ii) Insurance claim	150,000
(iii) Correction in depreciation expense	540,000
(iv) Purchases of 30 June 2019	(350,000)
(v) Third party inventory	(500,000)
Net increase in net profit	134,000